Building A Better A&P

1998 ANNUAL REPORT

COMPARATIVE HIGHLIGHTS

(Dollars in thousands, except per share amounts)	Fiscal 1998 *(52 weeks)*	Fiscal 1997 *(53 weeks)*	Fiscal 1996 *(52 weeks)*
Sales	$10,179,358	$10,262,243	$10,089,014
(Loss) income from operations	(164,391)	155,259	169,303
(Loss) income before extraordinary item	(67,164)	63,586	73,032
Net (loss) income	(67,164)	63,042	73,032
Net (loss) income per share before extraordinary item - basic and diluted	(1.75)	1.66	1.91
Net (loss) income per share - basic and diluted	(1.75)	1.65	1.91
Cash dividends per share	.40	.40	.20
Expenditures for property	438,345	267,623	296,878
Depreciation and amortization	233,663	234,236	230,748
Working capital	89,974	262,097	215,374
Shareholders' equity	837,257	926,632	890,072
Debt to total capitalization	.51	.48	.49
Book value per share	21.87	24.22	23.27
New store openings	46	40	30
Number of stores at year end	839	936	973
Number of franchised stores served at year end	55	52	49

NOTE: The comparative highlights for the fiscal 1998 52-week period ended February 27, 1999 includes a pre-tax store and facilities exit charge of $224,580 (See the "Store and Facilities Exit Costs" footnote to the Consolidated Financial Statements).

COMPANY PROFILE

The Great Atlantic & Pacific Tea Company, Inc. ("the Company"), based in Montvale, New Jersey, operates combination food and drug stores, conventional supermarkets and limited assortment food stores in 18 U.S. states, the District of Columbia and Ontario, Canada, under the A&P, Waldbaum's, Super Foodmart, Food Emporium, Super Fresh, Farmer Jack, Kohl's, Sav-A-Center, Dominion, Ultra Mart and Food Basics trade names. As of fiscal year ended February 27, 1999, the Company operated 839 stores and served 55 franchised stores. Through its Compass Foods Division, the Company also manufactures and distributes a line of whole bean coffees under the Eight O'Clock, Bokar and Royale labels, both for sale through its own stores as well as other food and convenience retailers.

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A&P AT A GLANCE

Corporate Headquarters	Two Paragon Drive Montvale, New Jersey 07645
Mission	To Become the Supermarket of Choice * Where People Choose to Shop * Where People Choose to Work * Where People Choose to Invest
Ownership	NYSE: GAP
Management	Executive Management Team * Christian Haub, President & CEO * Fred Corrado, Vice Chairman & CFO * George Graham, Executive Vice President & Chief Merchandising Officer * Michael Larkin, Senior Executive Vice President & COO * Laurane Magliari, Senior Vice President, People Resources & Services * Aaron Malinsky, Vice Chairman, Development & Strategic Planning * Cheryl Palmer, Senior Vice President, Strategic Marketing
Employment	25,236 full-time 58,178 part-time
Size & Scope	* Annual Sales - $10 billion * 839 stores in 18 states, the District of Columbia and Ontario, Canada * 14 warehouse distribution centers * 1 coffee manufacturing plant * 55 franchise stores * Top ten food retailer in North America and one of the fifty largest retailers in the world * Operates more than 28 million square feet of retail space
Facts & Figures	* Average store size: 35,247 square feet * Sales per square foot: $429
Store Banners	* A&P * Dominion * Farmer Jack * Food Basics * Food Emporium * Kohl's * Sav-A-Center * Super Foodmart * Super Fresh * Ultra Mart * Waldbaum's
Proprietary Brands	* Eight O' Clock Coffee * Master Choice * America's Choice * Health Pride * Savings Plus * E-Quality * Basics for Less
History:	Founded in 1859 by George Gilman and George Huntington Hartford, pioneers in consumer-oriented marketing, A&P is the nation's oldest supermarket chain

A Letter from Christian Haub

To my fellow shareholders:

The year 1998 was a pivotal one for the Company. After being named sole CEO in May, I initiated a vigorous assessment of all aspects of our business operations in order to identify the factors that were positively and negatively impacting the performance of A&P. With the results of that review in hand, we took the decisive actions required. We have also instituted new levels of accountability throughout the Company to ensure that top-tier performance is demanded and expected at every level. 1998 was the year we raised the performance goals for each of us and for the Company.

Our mission is simple - To Become the Supermarket of Choice for consumers, employees and investors. Anything that deters us from this goal is subject to change or elimination.

We worked hard to determine key objectives, identify our core values, and formulate the strategy that would serve as our roadmap to building a better A&P. We've established a long-term and sustainable plan to both grow the top-line and improve the bottom line. The elements of this strategy are initiatives focused on achieving market leadership, increasing sales productivity, improving expense management practices and enhancing margins.

Simultaneously, we began to implement changes at all levels of the organization, which are already showing promise in measurable ways. For example, by shifting our emphasis from pure cost-control to that of a cost-aware, but sales-driven organization, we succeeded in posting three consecutive quarters of comparable store sales increases for the first time in many years.

Strategic Initiatives: Building a Stronger Foundation

On December 8, 1998 we announced a multi-faceted program of strategic initiatives, which we are calling project "Great Renewal", designed to improve overall profitability, while helping A&P strengthen its leadership position to one of consistent growth in its core markets throughout North America. We are accelerating our store modernization program and opening between 175 and 200 new super-stores over the next three years for a net gain in selling space of 6 million square feet by 2001.

Our new generation super-stores continue to outpace the rest of the chain in terms of sales productivity and profit growth. They have a proven track record in terms of cultivating destination shoppers and continue to achieve sales growth beyond the natural maturation cycle of a typical new store. These new super-stores are the future of A&P.

Another key element of the strategic initiatives was our decision to close 132 under-performing stores. This plan of targeting and exiting non-strategic stores is fully underway in the U.S. and Canada and is expected to generate between $50 and $80 million in proceeds.

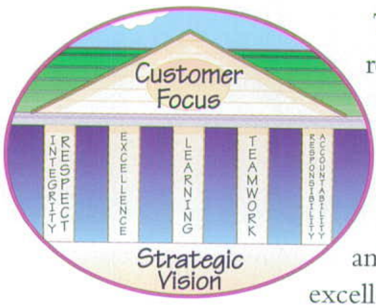
New strategies for improving productivity were also a part of the December announcement. We are

now taking action to reduce working capital and dispose of other non-strategic assets by realigning and consolidating our distribution facilities as well as both the manufacturing and the administrative functions.

We expect the full benefit of these initiatives will become evident in fiscal 2000. In order to execute project "Great Renewal", the Company will incur charges, which are currently not accruable, of approximately \$80-\$100 million during the upcoming year as we dispose of underperforming assets. We believe that these efforts and initiatives are the foundation upon which we will build a better A&P.

In April 1999, the Company announced its decision to exit the Atlanta market. This decision brings closure to the Company's evaluation of all its markets as announced in December 1998.

Building a Culture of Excellence



The biggest change of the last year, and one that is evident from the boardroom to the store sales floor, is the rapid culture change currently underway. Shifting to a culture that strives for excellence at every turn is no small accomplishment, but it's happening.

Clearly, achieving our goals and executing the Company's strategy require the support and effort of individuals throughout the organization, and our core values, customer focus, strategic vision, integrity and respect, excellence, learning, teamwork, responsibility and accountability — support and complement this mission. Together, these core values, along with our strategy, provide the overall direction for the Company. And, as we execute our strategy, they will serve as the backbone and set the tone for the way business is done on a daily basis.

The 9 Key Drivers of Sales Growth and Improved Profits

In the spring of 1998, we launched the "Nine Great Actions & Priorities Program" - the "Nine Great A&P's" - which emphasizes our people, customer service, improvement of store operations and a focus on better merchandising execution. The program resulted in increases in both customer count and higher average sales per transaction in our comparable stores.

Building a Better A&P

Although the initiatives we identified are still in their early stages, decisive steps are being taken to build a better and brighter future for the Company, our employees and our shareholders. A&P is once again rising to the challenges of an ever-changing marketplace and adapting to the needs of an ever-changing world. I am encouraged by the enthusiasm and support of our comprehensive change effort at every level of the organization. This response gives me great confidence in the future of A&P.

We thank you for investing in our vision.

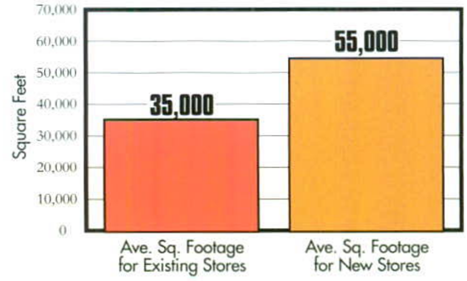
ACHIEVING MARKET LEADERSHIP

A&P enjoys customer loyalty under all of its banners and tremendous brand recognition for its proprietary brands such as Master Choice, America's Choice and Eight O'Clock Coffee. Going forward, our plan is to capitalize on the reputation we have earned to increase market share in the regions in which we operate.

Our core market strategy calls for achieving and maintaining the Number 1 or Number 2 position in every market we serve. In many markets, including New York, Michigan, New Orleans, and Ontario, we are well on our way. In regions where we have achieved leadership, we continue working to improve market share.

We will work to achieve this on several fronts:

Super-store strategy - As we build a better A&P, our stores are getting bigger. For stores we have exited in fiscal 1998, the average square footage was 28,000. For new stores we are opening, the square footage is between 45,000 and 65,000. Our super-store format continues to achieve higher than industry average sales per square foot, and attracts destination shoppers beyond the originally designated trade area. These stores have a proven track record of sales growth that exceeds the natural maturation cycle.



In fiscal 1998, we completed our largest single-year expansion program this decade, opening a total of 46 new stores. Super-stores now comprise 18% of our

total store portfolio and represent 31% of total sales. Further investment in this format includes more than 55 stores in 1999, 65 in 2000 and approximately 75 in 2001 for a square footage gain of 6 million square feet.

Store exit program — In areas where becoming the Number 1 or Number 2 player cannot be accomplished through traditional growth and upgrading, we will make the choice between an acquisition strategy and an exit strategy. Eliminating under-performing stores is part of our analysis in which subpar performance is not accepted.

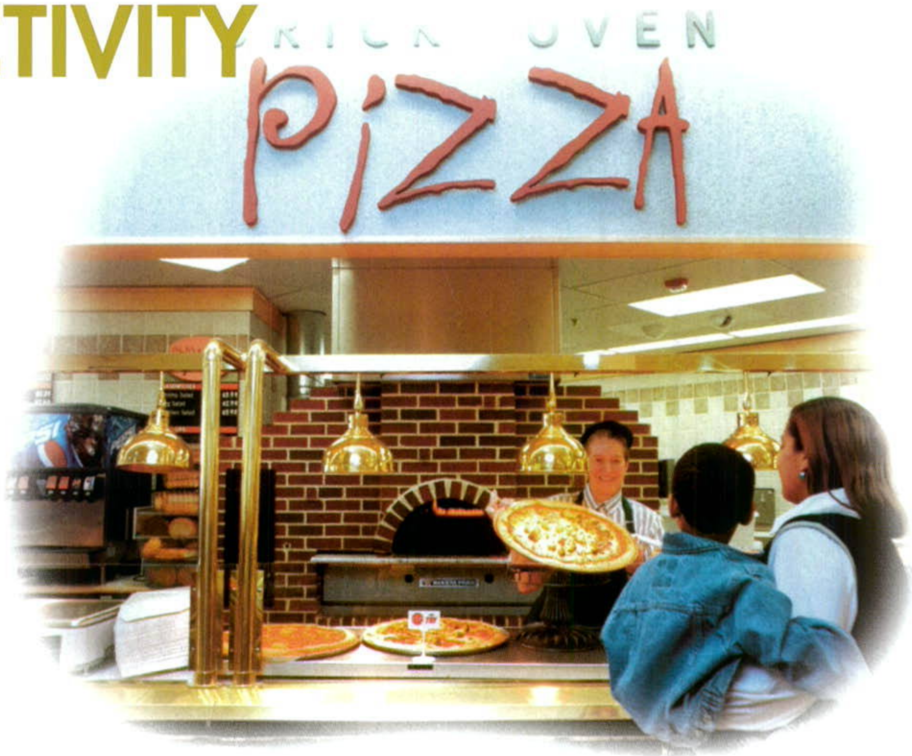
While the decision to close a store is never easy, we identified 132 under-performing stores that do not complement our strategy. By the end of the fiscal year, we had completed the closing of 66 of these stores. The closing of these stores will generate between $50 and $80 million in cash from asset sales and liquidation of working capital.

The importance of the store exit program extends beyond the bottom line. In making these decisions, we have committed ourselves to choosing our battles wisely and winning them.

Portfolio management - The real-estate in our core markets dictates that we cannot exclusively operate super-stores. However, through renovation, we are creating new store equivalents, and, where space is permitting, super-store equivalents. By adding the elements of the super-store experience that provide the most value for today's time-starved, convenience driven customer, we can drive sales and achieve the consistent product and experience necessary for core-market leadership. We've accelerated our store modernization program significantly and completed 69 remodels and enlargements in fiscal 1998. We expect to complete 75 projects per year for the next 3 years.

Competitive differentiation - To be the supermarket of choice, we need to clearly differentiate ourselves in the minds of our customers. This will come from continuing our efforts to establish ourselves as the leader in customer service as well as product differentiation. From the emphasis on fresh foods, to proprietary brands to the roll-out of 200 in-store Eight O'Clock Coffee Bars in 1999, A&P's banners will continue to seek new ways to meet our customers' needs.

IMPROVING SALES PRODUCTIVITY



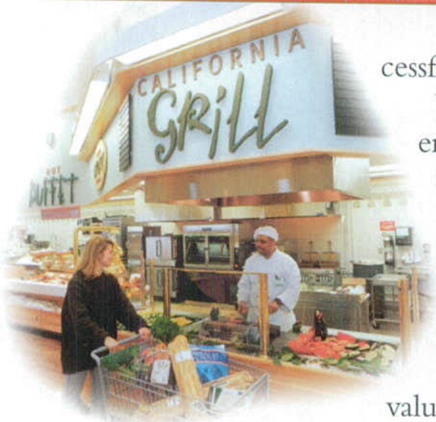
...the most successful players will be the leaders in customer service.

In today's world, there is a growing demand for convenience and a willingness to pay for it. People from all walks of life have less time to shop than ever before and they're looking for more options from those who supply the basic essentials.

One-stop shopping including non-grocery items. Extended hours. A complete drugstore with pharmacy. In-store prepared fresh foods. Meal solutions. These are just a few of the things that will support our efforts to increase average sales per transaction and customer count. Today, our super-stores out perform the industry average on a sales-per-square foot basis. We are working to continue that trend into fiscal 1999.

We've become more efficient in our promotions, enabling us to drive sales and attract new customers. We know that every new customer that shops in our stores for the first time can be converted to a loyal, destination shopper through a superior product offering and excellent customer service.

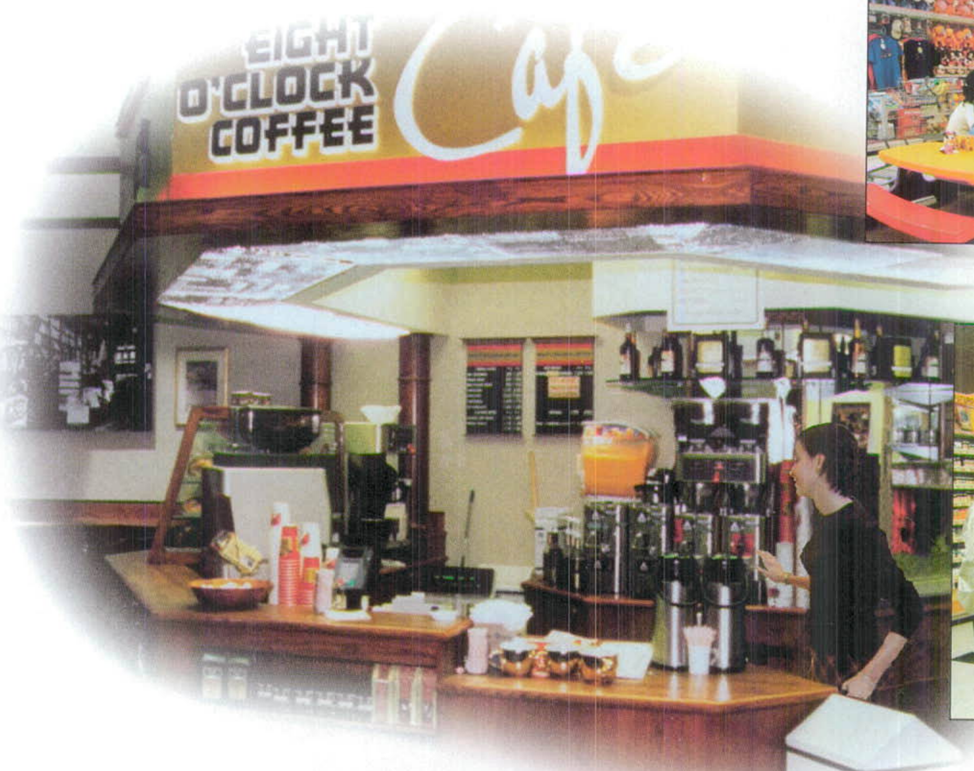
At A&P we believe that the supermarket business is no longer a commodity business. Increased competition and the consumer time-crunch have shifted us to a service-industry. The most suc-



cessful participants will be the leaders in customer service.

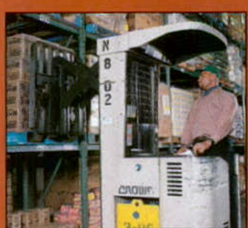
We are significantly improving our store operating standards and our entire execution at store level. We are constantly reviewing the products and services we offer to determine opportunities to add value for our customers and enhance the ease of shopping our stores. From offering in-store, full-service banking to health and beauty care products to coffee bars and product sampling, we're finding more and more reasons for customers to shop us exclusively.

Every single need or want a customer may have represents two valuable opportunities for us. To make their life easier, and to make a successful sale. By offering a full complement of goods and services in an atmosphere that encourages customer loyalty, we are creating an environment where everybody wins.



Extended hours. A complete drugstore with pharmacy. In-store prepared fresh foods. Meal solutions.

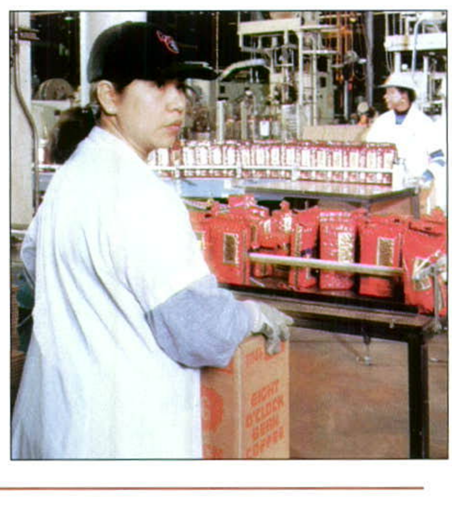
IMPROVING EXPENSE MANAGEMENT PRACTICES



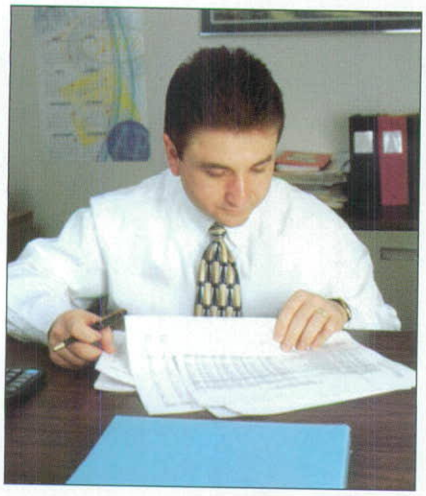
...we are even more diligent about identifying opportunities to improve efficiency.

Our renewed emphasis on cost management focuses on efficiency and the bottom line, which supports the balance between managing expenses and driving sales. In some cases, we've re-defined categories of expenses, such as store labor. To be a leader in customer service, our people are an asset, not merely an expense. This means we are even more diligent about identifying opportunities to improve efficiency or reduce expenses.

Consolidation of back-office functions and administration - In fiscal 1998 we consolidated warehouse functions, eliminating two warehouses in the Northeast. At the same time, we merged our two Super Fresh divisions and consolidated the management and administration of field management. We will continue to evaluate our operation for similar opportunities on an ongoing basis.

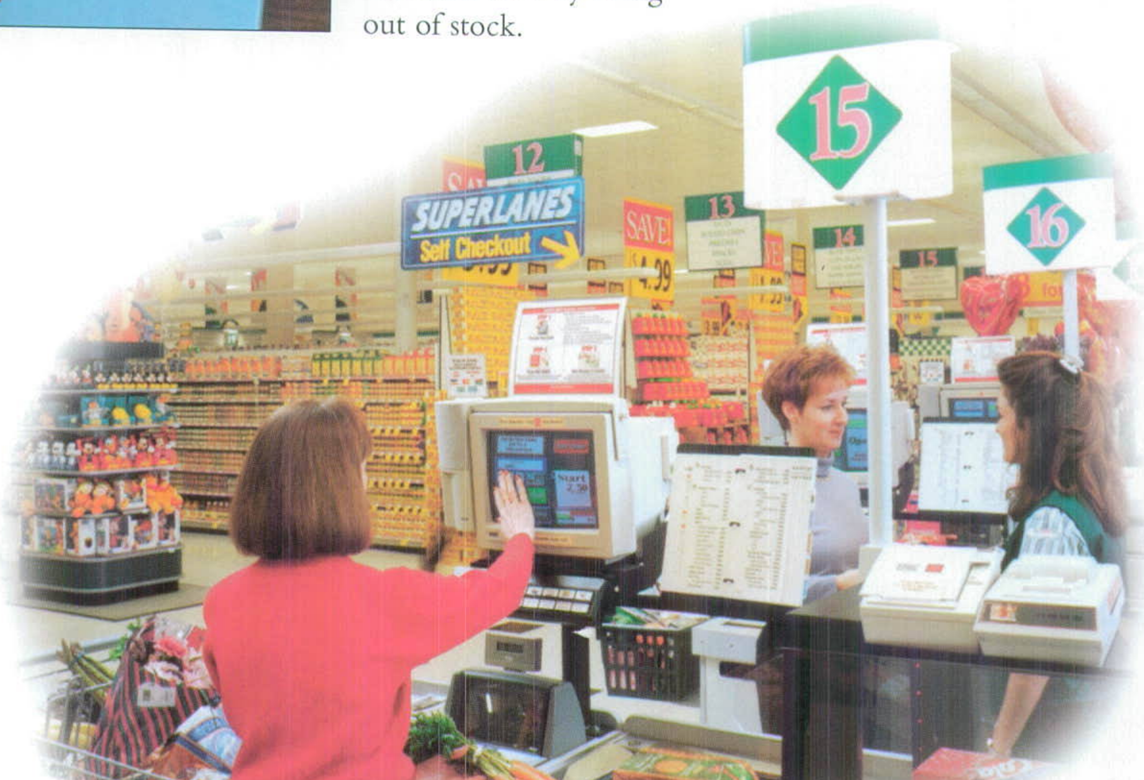


Elimination of non-performing assets - The Company has closed several facilities in fiscal 1998, including a coffee manufacturing



facility and a bakery. Any non-critical operation that detracts from the bottom line and is not necessary for our growth and core-market leadership is subject to scrutiny, overhaul and possibly, elimination.

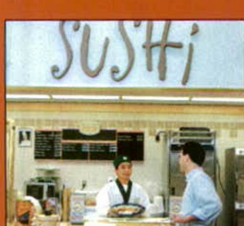
Inventory management - A company-wide inventory liquidation initiative is underway in order to improve our supply chain efficiencies and enhance store operations. In addition, improving inventory replenishment and better in-stock positions allows for more efficient inventory management, while ensuring that we don't lose customer sales by being out of stock.



Launched throughout all our banners, the self-checkout counters have proven successful. Our customers have welcomed the quicker checkout, while the option for self-reliance has given store managers greater flexibility with staffing.

ENHANCING MARGINS

Raising our private label penetration rate from its current 13% to a goal of 20% over the next two years provides dual benefits - it contributes higher margin dollars and builds customer loyalty.



While in the past we may have seen ourselves as a *provider* of goods, we now see the importance of *selling*. It is no longer enough to service basic product needs, to survive and thrive and grow, we have to aggressively pursue every opportunity that walks through the door. In our case, opportunity walks through the door hundreds of millions of times a year.

The opportunities for margin improvement coincide with the opportunities presented by customers seeking convenience, healthy alternatives, and value.

Ready-to-cook meals, fresh foods and produce, health and beauty care, pharmaceuticals, and private label brands are proven ways in which higher sales margins are achieved.

As we accelerate our new store and modernization programs, these numbers will increase rapidly. By focusing our main merchandising efforts beyond traditional grocery items, and onto areas that are evolving through the changing needs of the consumer, we have opened ourselves to new levels of improved margin opportunities.

Building brands is an essential part of the new sensibility we have embraced. An area of the U.S. market largely underdeveloped compared to Europe, we see private labels playing a significant role in our margin building strategy going forward.

Over the years A&P has enjoyed great success with our private label brands such as "Eight O'Clock Coffee", "America's Choice", "Master Choice", and "Health Pride". We are further defining the identity and focus of each of these brands and applying them to new categories of merchandise consistent with the overall emphasis on fresh foods as a means of increasing private label sales. In addition to traditional packaged goods such as canned goods, snacks and beverages, we have begun to brand traditionally high margin items such as prepared meals, fresh produce, fresh meat, and deli meats under our preferred Master Choice label.

Raising our private label penetration rate from its current 13% to a goal of 20% over the next two years provides dual benefits - it contributes higher margin dollars and builds customer loyalty. Available at each of our banners, these winning brands serve as the most prominent link of the commitment to quality and value that connects to all of our stores.

Our commitment to freshness can be seen in every store. Our top quality produce gives our customers yet another reason to shop with us -- and to shop often.

FOCUS ON PEOPLE

...the day-to-day interaction between employees and customers is the single biggest factor in our success.

The first thing we had to change about our people was how we viewed them. In the past, employees were seen as an expense that needed to be controlled. Today they are seen as our most valuable asset and the number one priority at A&P.

More than any other of the changes initiated in fiscal 1998, this fundamental change in philosophy has had the most profound effect on the day-to-day operations of our Company.

Speaking with our people - letting them know that their opinions matter and getting their feedback, has played a major role in re-positioning this Company for future growth.

When we asked ourselves what was going to provide the breakthrough for the Company's performance, the immediate and unanimous response was people. All of our people. We needed to face the fact that we're a people business in a service industry and that the day-to-day interaction between employees and customers is the single biggest factor in our success.

The regard we show to our employees in many ways determines the regard they show the customers and each other.

There is no need for market research to prove that people are more likely to shop in a store where service is friendly. As for

mutual respect among co-workers, that is a determining factor in the success or failure of the day-to-day operations.

Of our core values, Teamwork is the most detectable on the bottom line. It is a common attribute in our most profitable stores and it is vital to the success of an industry such as ours, where the manager to employee ratio is relatively low. By letting our employees know that their contribution matters - and where it fits into the big picture - we encourage them to look beyond the parameters of their job description and to the overall task at hand - serving the customer's needs.

Change in corporate culture, especially for one of our size and scope, is a complex and highly involved process. To be successful, communication must be consistent at every level. Both our Mission Statement and a chart detailing our Nine Great Actions and Priorities can be found in every A&P place of work. From the boardroom to the sales floor, our people are getting the message.

Throughout fiscal 1998, we worked to build an infrastructure and establish channels of communication that enabled every employee - throughout every office, warehouse, and store we operate - to play a role in our Company becoming the leading food retailer in North America and the Supermarket of Choice.

It's a sign of confidence when someone chooses to become an employee in one of our stores and an honor when current and former employees become loyal customers - At A&P, we're proud to say this happens all the time.

Building A Better A&P

Ready-to-cook meals, fresh foods and produce... are proven ways in which higher sales margins are achieved.

OPERATING RESULTS

Fiscal 1998 Compared with 1997

Sales for fiscal 1998 were $10,179 million, a net decrease of $83 million or 0.8% when compared to fiscal 1997 (a 53-week year) sales of $10,262 million. Total Company same store sales, which include replacement stores ("same store sales" referred to herein includes replacement stores) for fiscal 1998 increased 1.9% from the prior year. Average weekly sales per supermarket were approximately $210,500 in fiscal 1998 versus $199,400 in fiscal 1997, resulting in a 5.6% increase. During fiscal 1998, the Company opened 46 new supermarkets, remodeled or expanded 69 stores, and closed 143 stores. The Company serviced 55 Food Basics franchised stores at the end of fiscal 1998, versus 52 at the end of fiscal 1997.

The sales decrease of $83 million from last year was the result of the extra week in fiscal 1997 coupled with a decline in the Canadian exchange rate. The extra week of sales in fiscal 1997 amounted to approximately $174 million and the lower Canadian exchange rate reduced fiscal 1998 sales by approximately $131 million. Excluding the impact of the extra week in fiscal 1997 and the lower Canadian exchange rate, sales increased approximately $222 million or 2.2% from fiscal 1997. This increase is the result of new store openings and an increase in comparable store sales partially offset by store closures. The opening of 44 new stores, excluding 40 replacement stores, since the beginning of fiscal 1997 increased sales by approximately $274 million or 2.7% in fiscal 1998. In addition, the increase in comparable store sales of 1.9% increased sales by $177 million and wholesale sales to the Food Basics franchised stores increased $47 million or 13.8% to $387 million for fiscal 1998, which increased total Company sales by 0.5%. These sales increases were partially offset by the closure of 178 stores, excluding replacements stores, which reduced sales by $327 million or 3.2%. Included in the 178 store closures and $327 million sales impact are 66 stores relating to the exit stores that were closed during the fourth quarter which had an impact of $44 million. U.S. sales decreased $68 million or 0.8% compared to fiscal 1997. U.S. same store sales increased 1.4% from the prior year. In Canada, sales decreased $15 million or 0.8% from fiscal 1997 to $1,903 million. Canada same store sales increased 4.6% from the prior year.

Gross margin as a percent of sales increased 0.1% to 28.7% from 28.6% for the prior year. The gross margin dollar decrease of $16 million is primarily the result of a lower Canadian exchange rate which decreased margin by $31 million, offset by an increase in sales volume which had an impact of increasing margin by $8 million and an increase in gross margin rates of $7 million. The U.S. gross margin decreased $3 million principally as a result of a decrease in sales volume which had an impact of decreasing margin by $20 million and an increase in gross margin rates of $17 million. The Canadian operations gross margin decreased $13 million, which was primarily the result of the lower Canadian exchange rate.

Store operating, general and administrative expense of $3,084 million in fiscal 1998 increased by approximately $304 million from fiscal 1997. As a percent of sales, store operating, general and administrative expense for fiscal 1998 increased to 30.3% from 27.1% for the prior year. Included in fiscal 1998 store operating, general and administrative expenses are charges recorded in both the third and fourth quarters relating to the Company's store and facilities exit program which amounted to $225 million. The store and facilities exit program relates to a decision made in both the third and fourth quarters of fiscal 1998 to exit the market areas of 132 underperforming stores and to exit four facilities (see "Store and Facilities Exit Costs" footnote for further discussion). Excluding the store and facilities exit charges, store operating, general and administrative expense increased $79 million from fiscal 1997 and a rate to sales basis of 28.1% for fiscal 1998 as compared to 27.1% in fiscal 1997. Also included in store operating, general and administrative expense for fiscal 1998 are shut-down costs of stores and facilities amounting to approximately $9 million relating to 66 stores and three facilities closed in the third and fourth quarters of fiscal 1998, and $6 million of incurred professional fees associated with the identification and implementation of the store and facilities exit program. Further, store operating, general and administrative expense for fiscal 1998 also includes a $7 million write-down of a property no longer held for a potential store site and a $4 million litigation charge. During fiscal 1998, the Company accelerated its store modernization program and closed an additional 77 stores, for total store closures in fiscal 1998 of 143. As a result of the 77 store closures, the Company incurred $25 million of higher store closing charges in fiscal 1998 than the prior year. The remaining increase from the prior year of $28 million is mainly related to the occupancy costs of the new generation superstores which increased $20 million from the prior year.

In May 1998, the Company named a sole Chief Executive Officer of the Company. Following such announcement, the Company initiated a vigorous assessment of all aspects of its business operations in order to identify the

factors that were impacting the performance of the Company.

As a result of the above assessment, in the third quarter of fiscal 1998, the Company decided to exit two warehouse facilities, a coffee plant and a bakery plant in Canada. In connection with the exit plan, the Company recorded a charge of approximately $11 million which is included in "Store operating, general and administrative expense" in the accompanying Statements of Consolidated Operations. The $11 million charge was comprised of $7 million of severance, $3 million of facilities occupancy costs for the period subsequent to closure and $1 million to write-down the facilities to their estimated fair value. The Company has paid $3 million of the severance cost as of February 27, 1999, and expects the remainder to be paid by the end of fiscal 1999. As of February 27, 1999, the Company has paid $0.3 million of occupancy costs.

At February 27, 1999, the Company had closed and terminated operations with respect to the warehouses and the coffee plant. The volume associated with the two warehouses has been transferred to other warehouses in close geographic proximity. Further, the manufacturing processes of the coffee plant have been transferred to the Company's remaining coffee processing facility. The processing associated with the Canadian bakery has been outsourced effective January 1999.

In addition, on December 8, 1998, the Company's Board of Directors approved a plan which included the exit of 127 underperforming stores throughout the United States and Canada and the disposal of two other properties. Included in the 127 stores are 31 stores representing the entire Richmond, Virginia market. Further on January 28, 1999, the Board of Directors approved the closure of five additional underperforming stores. In connection with the Company's plan to exit these 132 stores and the write-down of two properties, the Company recorded a fourth quarter charge of approximately $215 million.

This $215 million charge was comprised of $8 million of severance, $1 million of facilities occupancy costs, $114 million of store occupancy costs, which principally relates to the present value of future lease obligations, net of anticipated sublease recoveries, which extend through fiscal 2028, an $83 million write-down of store fixed assets and a $9 million write-down to estimated fair value of the two properties which are held for sale. To the extent fixed assets included in those stores identified for closure could be utilized in other continuing store locations, the Company has or will transfer such assets to those continuing stores. To the extent such fixed assets cannot be transferred, the Company will scrap such fixed assets, and accordingly, the write-down was calculated utilizing an estimated scrap value. This fourth quarter charge of $215 million was reduced by approximately $2 million due to changes in estimates of pension withdrawal liabilities and fixed asset write-downs from the time the original charge was recorded. The net charge of $213 million is included in "Store operating, general and administrative expense" in the accompanying Statement of Operations. The Company has paid $1 million of the severance costs as of February 27, 1999 and expects the remainder to be paid by May 2000. In addition, the Company also paid $1 million of store occupancy costs since the date of closure of the 66 stores closed as of February 27, 1999. The total severance charge of approximately $15 million resulted from the termination of 1,273 employees.

As of February 27, 1999, the Company has closed 66 of the 132 stores identified, including all 31 stores in the Richmond, Virginia market. The remaining 66 stores will be closed over the next three quarters of fiscal 1999. Further, during the first three quarters of fiscal 1999, the Company expects to incur pre-tax losses related to this plan in the range of $80 to $100 million which are currently not accruable. Such amount principally represents operating losses of the identified stores prior to closure, the potential impact of selling inventory at reduced prices and employee termination costs which have not been communicated to such employees as of February 27, 1999.

On April 26, 1999, the Company announced that it had reached definitive agreements to sell 14 stores in the Atlanta market, two of which were previously included in the Company's store exit program (see "Store and Facilities Exit Costs" footnote). In conjunction with the sale, the Company decided to exit the entire Atlanta market and close the remaining 22 stores, as well as the distribution center and administrative office. Accordingly, the Company expects to record a fiscal 1999 first quarter pre-tax charge, net of proceeds from asset sales, in the range of $15 million to $20 million. This charge will include fixed and intangible asset write-offs, severance and lease commitments, and will be recorded as "store operating, general and administrative expense".

In addition to the charge, during the first quarter of fiscal 1999, the Company will incur pre-tax costs in the range of $10 million to $20 million. The amount principally represents the cost to close the identified stores and distribution center and the potential impact of selling inventory at reduced prices.

Interest expense decreased $9 million from the previous year, primarily due to a decrease in average debt of approxi-

mately $55 million. The decrease in debt is mainly the result of the Company issuing $300 million 10-year notes in April 1997 to refinance 10-year notes that were becoming due in January 1998. Accordingly, the Company had higher debt throughout fiscal 1997 until the fourth quarter of fiscal 1997 when the $200 million 10-year notes were paid.

Interest income decreased $1 million from the previous year, primarily due to a lower amount of short-term investments.

Loss before taxes and extraordinary item for fiscal 1998 was $229 million as compared to income of $83 million in fiscal 1997 for a decrease of $312 million. The loss before income taxes for fiscal 1998 includes the store and facilities exit charge of $225 million and other costs noted in store operating, general and administrative expense. Loss before taxes for U.S. operations amounted to $244 million, which was a decrease of $290 million from income of $46 million in fiscal 1997. Excluding the store and facilities exit charge, the U.S. loss before income taxes was $30 million for fiscal 1998 resulting in a $76 million decrease from fiscal 1997. The U.S. decrease of $75 million is the result of the charges noted in store operating, general and administrative expense relating to the property write-down, litigation, professional fees, shut-down costs and higher store closing costs which in total amounted to $46 million. The Canadian income before taxes for fiscal 1998 amounted to $15 million, which was a decrease of $22 million from the fiscal 1997 amount of $37 million. The $22 million decrease includes $10 million of the store and facilities exit charge and $6 million of higher store closing costs as noted in store operating, general and administrative expense.

The Company recorded income tax benefits amounting to $162 million in fiscal 1998 as compared to income tax provision of $19 million for fiscal 1997. The fiscal 1998 benefit of $162 million includes reversals of the Canadian operations deferred tax valuation allowance. During the first three quarters of fiscal 1998, the Company reversed approximately $9 million of the Canadian valuation allowance to the extent that the Canadian operations had taxable income. In addition, at the beginning of the fourth quarter of fiscal 1998, the Company concluded that it was more likely than not that the net deferred tax assets related to the Canadian operations would be realized and accordingly, the Company reversed the remaining portion of the Canadian deferred tax valuation allowance amounting to approximately $60 million. The deferred tax benefit recorded for U.S. operations of approximately $103 million mainly relates to book and tax differences of the store and facilities exit costs recorded in fiscal 1998. The fiscal 1997 income tax provision includes a reversal of the Canadian valuation allowance of $17 million. The reversal was recorded to the extent that the Canadian operations had taxable income. However, Management had still concluded that it was more likely than not that the Canadian net deferred tax assets would not be realized and through the end of fiscal 1997, the Company provided a full valuation allowance for its Canadian net deferred tax assets, principally net operating loss carryforwards. During the first three quarters of fiscal 1998, the Company continued to fully reserve its Canadian net deferred tax assets. At the beginning of the fourth quarter of fiscal 1998, based upon Management's plan to close underperforming stores in Canada (see "Store and Facilities Exit Costs" footnote), the implementation of certain tax strategies and the continued performance improvements of the Canadian operations, Management has concluded that it is more likely than not that the Canadian deferred tax assets will be realized. As such, as of December 6, 1998, the Company reversed the remaining deferred tax asset valuation allowance amounting to approximately $60 million. (See "Income Taxes" footnote for further discussion).

Net loss for fiscal 1998 was $67 million or $1.75 per share - basic and diluted, as compared to net income of $63 million or $1.65 per share - basic and diluted, after recording an extraordinary charge of $0.01 per share - basic and diluted for fiscal 1997. The decrease in net income of $130 million to a net loss of $67 million in fiscal 1998 is mainly the result of the store and facilities exit costs pre-tax charge of $225 million, partially offset by the reversal of the remaining Canadian valuation allowance.

Fiscal 1997 Compared with 1996

Sales for fiscal 1997 were $10,262 million, a net increase of $173 million or 1.7% when compared to fiscal 1996 sales of $10,089 million. Total Company same store sales, which include replacement stores ("same store sales" as referred to herein includes replacement stores), for fiscal 1997 decreased 1.6% from the prior year. Average weekly sales per supermarket were approximately $199,400 in fiscal 1997 versus $195,200 in fiscal 1996 for a 2.2% increase. During fiscal 1997, the Company opened 33 new supermarkets, 3 new liquor stores and 4 new Food Basics franchised stores, remodeled or expanded 45 stores, and closed 74 stores, of which 11 in the Carolina market were sold.

The sales increase of $173 million from last year was mainly the result of new store openings and an extra week of sales in fiscal 1997. The Company opened 36 stores, excluding 32 stores that replaced 32 older, outmoded stores, since the beginning of fiscal 1996, which increased sales by approximately $262 million or 2.6% in fiscal 1997. In addition, wholesale sales to the Food Basics franchised stores increased $135 million or 66% to $340 million for fiscal

1997, which increased total Company sales by 1.3%. In fiscal 1997, sales increased $174 million or 1.7% as a result of an extra week of sales during this 53-week year compared to a 52-week year in fiscal 1996. These increases were partially offset by the closure of 114 stores, excluding replacement stores, since the beginning of fiscal 1996, of which 11 were sold in the Carolina market, reducing total sales by approximately $218 million or 2.1% in fiscal 1997. The store closures include 24 stores that were subsequently converted to Food Basics franchised stores. The 1.6% decrease in same store sales resulted in a sales decrease of $153 million in fiscal 1997, while a lower Canadian exchange rate resulted in a sales decrease of $45 million in fiscal 1997. U.S. sales increased $62 million or 0.8% compared to fiscal 1996. U.S. same store sales were 2.0% below the prior year. In Canada, sales increased $111 million or 6.1% from fiscal 1996 to $1,918 million. Canada same store sales were up 0.6% from the prior year.

Gross margin as a percent of sales decreased 0.4% to 28.6% from 29.0% for the prior year resulting primarily from the increase of the lower margin wholesale sales from 2.0% to 3.3% of total Company sales in fiscal 1997, partially offset by an increase in the retail supermarket margin rate in the U.S. The gross margin percentage in the retail stores remained flat from the prior year. The gross margin dollar increase of $13 million is primarily the result of an increase in sales volume which had an impact of increasing margin by $66 million, partially offset by a decrease in gross margin rates of $40 million and a lower Canadian exchange rate which decreased margin by $13 million. The U.S. gross margin increased $24 million principally as a result of an increase in sales volume, which had an impact of increasing margin by $19 million and an increase in gross margin rates of $5 million. The Canadian operations gross margin decreased $11 million, which was primarily the result of the lower margin wholesale sales which increased from the prior year.

Store operating, general and administrative expense of $2,780 million in fiscal 1997 increased by approximately $27 million from fiscal 1996. As a percent of sales, store operating, general and administrative expense for fiscal 1997 decreased to 27.1% from 27.3% for the prior year. U.S. expenses increased $36 million, principally as a result of increased store labor and occupancy costs of the new superstores opened in fiscal 1997. In addition, store closing costs increased by $8 million which were offset by gains on sales of real estate of $11 million. Canadian expenses decreased $9 million, principally as a result of reduced store labor and occupancy costs due to converting 24 stores to Food Basics franchised stores.

Interest expense increased $7 million from the previous year, primarily due to an increase in average debt of approximately $95 million. The increase in debt is mainly the result of the Company issuing $300 million 10-year notes in April 1997 to refinance 10-year notes that were becoming due in January 1998. The debt outstanding in April 1997 subsequent to the issuance of the $300 million 10-year notes was approximately $862 million, which was reduced to $712 million at February 28, 1998.

Interest income increased $3 million from the previous year, primarily due to interest income on equipment leases relating to the Food Basics franchise business and higher interest income on short-term investments. The interest income on short-term investments was mainly the result of the Company investing a portion of the proceeds from the $300 million 10 year notes in April 1997 prior to the use of the cash to refinance the bonds due in January 1998.

Income before taxes and extraordinary item for fiscal 1997 was $83 million as compared to $101 million in fiscal 1996 for a decrease of $18 million or 18%. Income before taxes for U.S. operations decreased $23 million from $68 million in fiscal 1996 to $45 million in fiscal 1997. The U.S. decrease was partially offset by an increase in Canadian operations income before taxes of $5 million to $37 million in fiscal 1997 from $32 million in fiscal 1996.

The effective tax rate for fiscal 1997 was 23.3% as compared to an effective tax rate of 27.4% in fiscal 1996. During fiscal 1997, since the Canadian operations generated pretax earnings, the Company reversed approximately $17 million of the valuation allowance, which was an increase of $3 million from the fiscal 1996 reversal of $14 million. Accordingly, the decrease in the effective tax rate is mainly attributable to the change in the Canadian income tax valuation allowance. The Company is reversing the income tax valuation allowance to the extent that its Canadian operations generate taxable income.

Although Canada generated pretax earnings in fiscal 1997 of $37 million and $32 million in fiscal 1996, the Company was unable to conclude that the Canadian deferred tax assets were more likely than not to be realized. This conclusion was based in part on Management's assessment of the competitive Canadian marketplace and the level of the Canadian earnings. Accordingly, at February 28, 1998, the Company continued to fully reserve its Canadian net deferred tax asset. The Canadian pretax income for financial statement purposes is higher than the taxable income for tax purposes due to certain differences between the financial statement and income tax treatment of certain items. This is of further significance since the largest portion of the Canadian deferred tax asset relates to net operating loss carryforwards which

expire between fiscal 1999 and fiscal 2002 (see "Income Taxes" footnote for further discussion).

In the second quarter of fiscal 1997, the Company recorded an extraordinary charge of $0.5 million, net of a tax benefit of $0.4 million relating to the early extinguishment of debt which amounted to $0.01 per share - basic and diluted. The Company retired at a premium approximately $20 million in mortgages with a weighted average interest rate of 9.4%.

Net income for fiscal 1997 after recording an extraordinary charge of $0.01 per share - basic and diluted, was $63 million or $1.65 per share - basic and diluted, as compared to $73 million or $1.91 per share - basic and diluted, for fiscal 1996. The decrease in net income is the result of higher store operating, general and administrative expenses of $27 million, partially offset by higher gross margins of $13 million coupled with a lower effective income tax rate.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended the 1998 fiscal year with working capital of $90 million compared to $262 million and $215 million at February 28, 1998 and February 22, 1997, respectively. The Company had cash and short-term investments aggregating $137 million at the end of fiscal 1998 compared to $71 million and $99 million at the end of fiscal 1997 and 1996, respectively.

On June 10, 1997, the Company executed an unsecured five year $465 million U.S. credit agreement and a five year C$50 million Canadian credit agreement (the "1997 Credit Agreement") with a syndicate of banks, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings. The Company pays a facility fee of 0.25% per annum on the total commitment of the U.S. and Canadian revolving credit facilities. Borrowings under the U.S. revolving credit agreement were $130 million and $90 million at February 27, 1999 and February 28, 1998, respectively. The Canadian subsidiary had no outstanding borrowings at February 27, 1999 or February 28, 1998. As of February 27, 1999, the Company has available $335 million under its U.S. credit agreement and C$50 million (U.S. $33 million at February 27, 1999) under the Canadian credit agreement. As of February 28, 1998, the Company had available $375 million under its U.S. revolver and C$50 million (U.S. $35 million at February 28, 1998) under the Canadian credit agreement. In addition, the U.S. has uncommitted lines of credit with various banks amounting to $211 million and $149 million as of February 27, 1999 and February 28, 1998, respectively. Borrowings under these uncommitted lines of credit amounted to $23 million and $38 million as of February 27, 1999 and February 28, 1998, respectively.

As of February 27, 1999, the Company had outstanding a total of $575 million of unsecured, non-callable public debt securities in the form of $75 million 7.78% Notes due November 1, 2000, $200 million 7.70% Notes due January 15, 2004 and $300 million 7.75% Notes due April 15, 2007. As of February 27, 1999, the Company had $368 million available under the 1997 Credit Agreement and $188 million in uncommitted lines of credit.

The Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Ltd. ("A&P Canada"), has outstanding $75 million 5 year Notes denominated in U.S. dollars that were issued in October 1995 and are due on November 1, 2000. In conjunction with the issuance of the notes, A&P Canada entered into a five year cross-currency swap agreement expiring November 1, 2000. The cross-currency swap was executed for protection against the effect of a decrease in Canadian exchange rates on both the semi-annual interest payments and the final principal payment due to the Company's U.S. bondholders. The cross-currency swap enables the Company to pay in Canadian dollars a fixed rate of interest of 9.23% on a notional amount of C$100 million for the $75 million 7.78% Notes denominated in U.S. dollars. The cost of the cross-currency swap of 1.45% is charged to interest expense. The Company records an asset or liability to the extent that an eventual transaction gain or loss is expected to be recorded upon the settlement of the notional amount of the underlying debt. Accordingly, the Company has recorded in other assets the receivable due from the counterparty amounting to approximately $8.4 million and $4.5 million as of February 27, 1999 and February 28, 1998, respectively. The fair value of the cross-currency swap was favorable to the Company by $6.9 million and $1 million as of February 27, 1999 and February 28, 1998, respectively. The Company is exposed to credit losses in the event of nonperformance by the counterparty to its currency swap. However, the Company anticipates that the counterparty will be able to fully satisfy its obligations under the contracts.

On April 15, 1997, A&P Canada entered into an interest rate swap agreement with a notional amount of C$100 million expiring November 1, 2000 where A&P Canada receives a fixed rate of interest and pays a variable rate of interest. In August of 1998, A&P Canada assigned the interest rate swap agreement and received consideration of $0.6 million. The consideration received is amortized as a reduction to interest expense until November 1, 2000.

The fair value of the interest rate swap was favorable to the Company by $1.4 million as of February 28, 1998.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum net worth and maximum levels of indebtedness and lease commitments. As a result of the store exit charge recorded on December 8, 1998 (see "Store and Facilities Exit Costs" in the accompanying financial statements), the Company would not have been in compliance with certain of its covenants as of February 27, 1999, relating to the 1997 Credit Agreement. The Company amended the 1997 Credit Agreement prior to February 27, 1999. Accordingly, the Company was in compliance with all such financial covenants, as amended, as of February 27, 1999, and believes that it will continue to be in compliance.

During fiscal 1998, the Company funded its capital expenditures, debt repayments and cash dividends through internally generated funds combined with proceeds from bank borrowings.

U.S. bank borrowings were $153 million at February 27, 1999 as compared to $128 million at February 28, 1998. U.S. bank borrowings during fiscal 1998 were at an average interest rate of 5.3% compared to 6.0% in fiscal 1997.

Pursuant to a Shelf Registration Statement dated January 23, 1998, the Company may offer up to $500 million of debt and equity securities at terms determined by market conditions at the time of sale.

Capital expenditures totaled $438 million during fiscal 1998, which included 46 new supermarkets, and 69 remodels and enlargements.

For fiscal 1999, the Company has planned capital expenditures of approximately $500 million and plans to open 55 new supermarkets and remodel or expand 75 stores. In addition, in March 1999, the Company signed a definitive agreement to purchase 6 stores in the New Orleans market. The total capital investment, including costs to remodel the stores will be approximately $80 million. The Company expects to complete the transaction during the first quarter of fiscal 1999. It has been the Company's experience over the past several years that it typically takes 12 to 15 months after opening for a new store to recoup its opening costs and become profitable thereafter. Risks inherent in retail real estate investments are primarily associated with competitive pressures in the marketplace. Beginning in fiscal 1999 through fiscal 2000, the Company intends to improve the use of technology to improve customer service, store operations, warehousing/distribution and merchandising and to intensify advertising and promotions. The Company currently expects to close a total of approximately 100 stores in fiscal year 1999 of which 34 stores relate to the Company's store modernization program to replace older outmoded stores and 66 stores relating to the store exit program.

The Company plans to open approximately 65 new supermarkets in fiscal 2000 and approximately 70 to 80 new supermarkets per year thereafter for several years, with an attendant increase in square footage of approximately 3% per year. In addition, the Company also plans to remodel or enlarge an average of 70 to 80 stores per year. The Company's concentration will be on larger stores in the 50,000 to 65,000 square foot range. Costs of each project will vary significantly based upon size, marketing format, geographic area and development involvement required from the Company. The planned costs of these projects approximate $4 million for a new store and $1 million for a remodel or enlargement. Traditionally, the Company leases real estate and expends capital on leasehold improvements and store fixtures and fittings. Consistent with the Company's history, most new store activity will be directed into those areas where the Company achieves its best profitability. Remodeling and enlargement programs are normally undertaken based upon competitive opportunities and usually involve updating a store to a more modern and competitive format.

The fiscal 1998 quarterly dividend was $0.10 per share and amounted to $15.3 million. The Company expects to maintain the same dividend amount for fiscal 1999.

At fiscal year end 1998, the Company's existing senior debt rating was Ba1 with Moody's Investors Service and BBB- with Standard & Poor's Ratings Group. A change in either of these ratings could affect the availability and cost of financing.

The Company's current cash resources, together with cash generated from operations, will be sufficient for the Company's 1999 capital expenditure program, mandatory scheduled debt repayments and dividend payments throughout fiscal 1999.

MARKET RISK

Market risk represents the risk of loss that may impact the consolidated financial position, results of operations or cash flows of the Company. The Company is exposed to market risk in the areas of interest rates and foreign currency exchange rates.

Interest Rates

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's debt obligations. The Company has no cash flow exposure due to rate changes on its $575 million and $500 million in notes as of February 27, 1999 and February 28, 1998, respectively. However, the Company does have cash flow exposure on its committed and uncommitted bank lines of credit due to its variable LIBOR pricing. Accordingly, as of fiscal 1998, a 1% change in LIBOR will result in interest expense fluctuating approximately $1.5 million. As of fiscal 1997, the Company also had $75 million in notes that had variable pricing. Accordingly, as of fiscal 1997 a 1% change in LIBOR would have resulted in interest expense fluctuating approximately $2.5 million.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk to the extent of adverse fluctuations in the Canadian dollar. Based upon historical Canadian currency movement, the Company does not believe that reasonably possible near-term change in the Canadian currency of 10% will result in a material effect on future earnings, financial position or cash flows of the Company.

The Company entered into a five year cross-currency swap agreement to hedge five year notes in Canada that are denominated in U.S. dollars. The Company does not have any currency risk regarding the Canadian five year notes. The Company is exposed to currency risk in the event of default by the counterparty. Such default is remote, as the counterparty is a widely recognized investment banker. The fair value of the cross-currency swap agreement was favorable to the Company by $6.9 million and $1 million as of February 27, 1999 and February 28, 1998, respectively. A 10 % change in Canadian exchange rates would have resulted in the fair value fluctuating approximately $6.7 million in fiscal 1998 and approximately $7.3 million in fiscal 1997.

YEAR 2000 COMPLIANCE

The Company has formed an ongoing task force to review the entire range of the Company's operations relating to the Year 2000 issues. This task force reports to the Vice Chairman of the Board of Directors. Assessment of those functions of the business that require attention and resources to achieve Year 2000 compliance is in progress throughout the entire organization. Both the Information Technology ("IT") and the non-IT area assessments are 100% complete. The current estimate of the remediation effort (including new programs and components) is approximately 75% complete in the IT area and 35% complete in the non-IT area. Testing of the systems and implementation of renovated and new systems are currently in progress. A number of renovated and new systems that are Year 2000 compliant are currently being used in operations.

The costs to address the Company's Year 2000 issues are estimated to be approximately $5 million. Approximately $3.5 million of these costs have been incurred through fiscal 1998. In addition, the Company will incur additional capital expenditures of approximately $5 million in order to replace equipment that is not Year 2000 compliant. To date, the Company has made capital expenditures of $1.5 million for such equipment purchases. Some non-essential IT projects have been deferred due to the Year 2000 project; however, the Company believes that such a deferral will not affect the Company's financial performance.

From an IT perspective, the task force is responsible for assessing the extent of affected software/hardware and developing procedures to resolve the potential problems associated with that software/hardware. The procedures developed include making the necessary changes to the affected software, adequately testing the changes and phasing in the Year 2000 compliant programs to limit disruption or delay in the Company's normal business activities. The Company is also in the process of updating vendor software packages to the latest versions to insure all Company software is Year 2000 compliant. Some in-store IT systems as well as other support area IT systems will also need remediation to become Year 2000 compliant. The risks from an IT perspective involves potential business disruption due to software and computer systems not functioning properly. During the latter part of 1999, the IT staff has committed resources to perform extended integrated testing with its key supply chain business partners to address such risks.

The risks of Year 2000 issues from a non-IT area are principally as follows: electrical outages resulting in breakdown of point-of-sale systems, lighting and refrigeration equipment and the loss of utility service. In addition, certain store equipment may have embedded chips or microprocessors that are not Year 2000 compliant. The Company has identified such equipment and is either replacing the affected chips or microprocessors or purchasing new equipment

that is compliant. The events noted above could severely affect Company operations. The Company plans to mitigate the potential effect of such issues by preparing a contingency plan as discussed below.

Significant risk also arises out of the possible failure of vendors to respond to Year 2000 issues. The Company is meeting with its major vendors and suppliers to determine their state of readiness and to review the contingency plans that they have developed. Companies that are compliant and have prepared for contingencies will have a status as preferred suppliers. With respect to other vendors that either are not Year 2000 compliant, or do not have adequate contingency or remediation plans, the Company will seek alternative sources when possible. To date, the Company has communicated with all of its major vendors and suppliers all of who have addressed the Year 2000 issue and have contingency plans.

With respect to contingencies, the Company has developed a crisis management plan in order to perform necessary functions to fully run the Company's operations. The crisis management plan is being revised on a continuous basis. The Company will continue to expand its contingency plans and detailed procedures in order to mitigate the effects of the Year 2000 issues that might affect the Company. The Company currently believes that the most reasonably likely worst case scenario concerning the Year 2000 involves potential business disruption among third parties with whom it conducts significant business, specifically getting continuous electrical power and communications with the stores and warehouses.

The Company believes that it has allocated sufficient resources to resolve all significant Year 2000 issues in a timely manner. Accordingly, the Company plans to be Year 2000 compliant by October 1999.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires that all derivative instruments be measured at fair value and recognized in the statement of financial position as either assets or liabilities. In addition, the accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and the resulting designation. For a derivative designated as a hedge the change in fair value will be recognized as a component of other comprehensive income; for a derivative not designated as a hedge the change in the fair value will be recognized in the statement of operations. Currently the Company has one derivative instrument in the form of a cross-currency swap. The Company will adopt SFAS 133 in the second quarter of fiscal 1999. The cross-currency swap will impact the Company's statement of operations and balance sheet to the extent that there is a change in the fair value of the derivative instrument.

CAUTIONARY NOTE

This report contains certain forward-looking statements about the future performance of the Company which are based on Management's assumptions and beliefs in light of the information currently available to it. The Company assumes no obligation to update the information contained herein. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements including, but not limited to: competitive practices and pricing in the food industry generally and particularly in the Company's principal markets; the Company's relationships with its employees and the terms of future collective bargaining agreements; the costs and other effects of legal and administrative cases and proceedings; the nature and extent of continued consolidation in the food industry; changes in the financial markets which may affect the Company's cost of capital and the ability of the Company to access the public debt and equity markets to refinance indebtedness and fund the Company's capital expenditure program on satisfactory terms; supply or quality control problems with the Company's vendors; changes in economic conditions which affect the buying patterns of the Company's customers; and the ability of the Company and its vendors, financial institutions and others to resolve Year 2000 processing issues in a timely manner.

STATEMENTS OF CONSOLIDATED OPERATIONS

(Dollars in thousands, except per share amounts)

	Fiscal 1998 (52 weeks)	Fiscal 1997 (53 weeks)	Fiscal 1996 (52 weeks)
Sales	$10,179,358	$10,262,243	$10,089,014
Cost of merchandise sold	(7,260,110)	(7,327,365)	(7,167,315)
Gross margin	2,919,248	2,934,878	2,921,699
Store operating, general and administrative expense	(3,083,639)	(2,779,619)	(2,752,396)
(Loss) income from operations	(164,391)	155,259	169,303
Interest expense	(71,497)	(80,152)	(73,208)
Interest income	6,604	7,793	4,496
(Loss) income before income taxes and extraordinary item	(229,284)	82,900	100,591
Benefit (provision) for income taxes	162,120	(19,314)	(27,559)
(Loss) income before extraordinary item	(67,164)	63,586	73,032
Extraordinary loss on early extinguishment of debt (net of income tax benefit of $394)	-	(544)	-
Net (loss) income	$ (67,164)	$ 63,042	$ 73,032
Basic (loss) earnings per share:			
(Loss) income before extraordinary item	$ (1.75)	$ 1.66	$ 1.91
Extraordinary loss on early extinguishment of debt	-	(0.01)	-
Net (loss) income per share - basic	$ (1.75)	$ 1.65	$ 1.91
Diluted (loss) earnings per share:			
(Loss) income before extraordinary item	$ (1.75)	$ 1.66	$ 1.91
Extraordinary loss on early extinguishment of debt	-	(0.01)	-
Net (loss) income per share - diluted	$ (1.75)	$ 1.65	$ 1.91

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY AND COMPREHENSIVE (LOSS) INCOME

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except share amounts)

	Fiscal 1998	Fiscal 1997	Fiscal 1996
Common stock:			
Shares:			
Issued and outstanding at beginning of year	38,252,966	38,247,716	38,220,333
Stock options exercised	37,750	5,250	27,383
Issued and outstanding at end of year	38,290,716	38,252,966	38,247,716
Balance at beginning of year	$ 38,253	$ 38,247	$ 38,220
Stock options exercised	38	6	27
Balance at end of year	$ 38,291	$ 38,253	$ 38,247
Capital surplus:			
Balance at beginning of year	$453,894	$453,751	$453,121
Stock options exercised	1,077	143	630
Balance at end of year	$454,971	$453,894	$453,751
Accumulated other comprehensive (loss) income:			
Balance at beginning of year	$(61,025)	$(49,694)	$ (50,936)
Comprehensive (loss) income	(8,014)	(11,331)	1,242
Balance at end of year	$(69,039)	$(61,025)	$(49,694)
Retained earnings:			
Balance at beginning of year	$495,510	$447,768	$382,380
Net (loss) income	(67,164)	63,042	73,032
Cash dividends	(15,312)	(15,300)	(7,644)
Balance at end of year	$413,034	$495,510	$447,768

Comprehensive (loss) income			
Net (loss) income	$ (67,164)	$ 63,042	$ 73,032
Foreign currency translation adjustment	(9,936)	(5,121)	1,242
Minimum pension liability adjustment	1,922	(6,210)	-
Accumulated other comprehensive (loss) income	(8,014)	(11,331)	1,242
Total comprehensive (loss) income	$ (75,178)	$ 51,711	$ 74,274

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	February 27, 1999	February 28, 1998
Assets		
Current assets:		
Cash and short-term investments	$ 136,810	$ 70,937
Accounts receivable	204,700	227,703
Inventories	841,030	882,229
Prepaid expenses and other current assets	41,497	36,358
Total current assets	1,224,037	1,217,227
Property:		
Land	141,061	138,139
Buildings	406,122	368,201
Equipment and leasehold improvements	2,147,418	2,122,860
Total-at cost	2,694,601	2,629,200
Less accumulated depreciation and amortization	(1,097,142)	(1,122,381)
	1,597,459	1,506,819
Property leased under capital leases	89,028	90,058
Property-net	1,686,487	1,596,877
Other assets	231,217	181,149
	$3,141,741	$2,995,253
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 4,956	$ 16,824
Current portion of obligations under capital leases	11,483	12,293
Accounts payable	557,318	441,149
Book overdrafts	160,288	151,846
Accrued salaries, wages and benefits	152,107	146,064
Accrued taxes	54,819	57,856
Other accruals	193,092	129,098
Total current liabilities	1,134,063	955,130
Long-term debt	728,390	695,292
Long-term obligations under capital leases	115,863	120,980
Deferred income taxes	23,309	120,618
Other non-current liabilities	302,859	176,601
Commitments and contingencies		
Shareholders' equity:		
Preferred stock-no par value; authorized - 3,000,000 shares; issued-none	-	-
Common stock-$1 par value; authorized - 80,000,000 shares; issued and outstanding 38,290,716 and 38,252,966 shares, respectively	38,291	38,253
Capital surplus	454,971	453,894
Accumulated other comprehensive loss	(69,039)	(61,025)
Retained earnings	413,034	495,510
Total shareholders' equity	837,257	926,632
	$3,141,741	$2,995,253

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Cash Flows From Operating Activities:			
Net (loss) income	$ (67,164)	$ 63,042	$ 73,032
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Store/Facilities exit charge and asset write-off	224,580	-	-
Depreciation and amortization	233,663	234,236	230,748
Deferred income tax provision (benefit) on (loss) income before extraordinary item	(165,672)	11,425	(1,067)
(Gain) loss on disposal of owned property, and write-down of property, net	4,541	(11,363)	1,338
(Increase) decrease in receivables	19,562	(14,116)	(5,615)
(Increase) decrease in inventories	34,762	(6,090)	(53,672)
(Increase) decrease in prepaid expenses and other current assets	6,816	(2,630)	6,401
(Increase) decrease in other assets	2,071	(1,435)	(26,753)
Increase (decrease) in accounts payable	122,251	(24,542)	15,950
Increase (decrease) in accrued expenses	2,633	8,594	(2,657)
Increase (decrease) in other accruals	43,604	4,250	(17,855)
Increase (decrease) in non-current other liabilities	28,203	15,906	(4,051)
Other, net	(2,764)	(1,050)	270
Net cash provided by operating activities	487,086	276,227	216,069
Cash Flows From Investing Activities:			
Expenditures for property	(438,345)	(267,623)	(296,878)
Proceeds from disposal of property	12,546	31,783	19,408
Net cash used in investing activities	(425,799)	(235,840)	(277,470)
Cash Flows From Financing Activities:			
Proceeds under revolving lines of credit	451,523	947,148	459,312
Payments on revolving lines of credit	(411,632)	(991,296)	(439,591)
Proceeds from long-term borrowings	3,685	304,213	41,978
Payments on long-term borrowings	(22,456)	(267,848)	(6,155)
Principal payments on capital leases	(12,139)	(13,711)	(13,166)
Increase (decrease) in book overdrafts	12,079	(28,145)	24,901
Deferred financing fees	-	(2,471)	-
Proceeds from stock options exercised	1,115	149	657
Cash dividends	(15,312)	(15,300)	(7,644)
Net cash provided by (used in) financing activities	6,863	(67,261)	60,292
Effect of exchange rate changes on cash and short-term investments	(2,277)	(1,019)	167
Net Increase (Decrease) in Cash and Short-term Investments	65,873	(27,893)	(942)
Cash and Short-term Investments at Beginning of Year	70,937	98,830	99,772
Cash and Short-term Investments at End of Year	$136,810	$ 70,937	$ 98,830

See Notes to Consolidated Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. The Company operates retail supermarkets in the United States and Canada. The U.S. operations are mainly in the Eastern part of the U.S. and certain parts of the Midwest. See the following footnotes for additional information on the Canadian Operations: Segment and Geographic Information, Food Basics Franchise Business, Income Taxes and Retirement Plans and Benefits.

Revenue Recognition

Retail revenue is recognized at point-of-sale while wholesale revenue is recognized when goods are shipped.

Fiscal Year

The Company's fiscal year ends on the last Saturday in February. Fiscal 1998 ended February 27, 1999, fiscal 1997 ended February 28, 1998 and fiscal 1996 ended February 22, 1997. Fiscal 1998 and fiscal 1996 were each comprised of 52 weeks while fiscal 1997 was comprised of 53 weeks.

Common Stock

The principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft, owned 54.92% of the Company's common stock as of February 27, 1999.

Cash and Short-term Investments

Short-term investments that are highly liquid with an original maturity of three months or less are included in cash and short-term investments and are deemed to be cash equivalents.

Inventories

Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. Warehouse and other inventories are valued primarily at the lower of cost or market with cost determined on a first-in, first-out basis. Inventories of certain acquired companies are valued using the last-in, first-out method, which was their practice prior to acquisition.

Advertising Costs

Advertising costs are expensed as incurred. The Company recorded advertising expense of $136 million for fiscal 1998 and $138 million for both fiscal years 1997 and 1996.

Properties

Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Real property leased under capital leases is amortized over the lives of the respective leases or over their economic useful lives, whichever is less. During fiscal 1998 and 1997, the Company disposed of certain assets which resulted in a pretax gain of $2 million and $11 million, respectively.

Pre-opening Costs

The costs of opening new stores are expensed in the year incurred.

Software Costs

The Company capitalizes externally purchased software and amortizes it over three years. Amortization expense for fiscal 1998, fiscal 1997 and fiscal 1996 was $0.8 million, $0.4 million and $0.2 million, respectively.

Effective February 29, 1998, the Company early adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Development or Obtained for Internal Use". SOP 98-1 requires the capitalization of certain internally generated software costs. Such software is amortized over three years and for fiscal 1998, the Company capitalized $1.4 million of such software costs and recorded amortization expense of $0.1 million.

Earnings Per Share

In the fourth quarter of fiscal 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 requires dual presentation of basic and diluted earnings per share ("EPS") on the face of the statements of consolidated operations and requires a reconciliation of the numerators and denominators of the basic and diluted EPS calculations. Basic EPS is computed by dividing net income by the weighted average shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options to issue common stock were exercised and converted to common stock.

The weighted average shares outstanding utilized in the basic EPS calculation were 38,273,859 for fiscal 1998, 38,249,832 for fiscal 1997 and 38,221,329 for fiscal 1996. The common stock equivalents that were added to the weighted average shares outstanding for purposes of diluted EPS were 19,926 for fiscal 1997 and 66,260 for fiscal 1996. The common stock equivalents for fiscal 1998 would have been 47,772; however, such shares were antidilutive and thus excluded from the diluted EPS calculation for fiscal 1998.

Excess of Cost over Net Assets Acquired

The excess of cost over fair value of net assets acquired is amortized on a straight-line basis over forty years. The Company recorded amortization expense of $1.5 million for each of the three fiscal years in the period ended February 27, 1999. The accumulated amortization relating to goodwill amounted to $13.2 million and $11.7 million at February 27, 1999 and February 28, 1998, respectively. At each balance sheet date, Management reassesses the appropriateness of the goodwill balance based on forecasts of cash flows from operating results on an undiscounted basis. If the results of such comparison indicate that an impairment may exist, the Company will recognize a charge to operations at that time based upon the difference between the present value of the expected cash flows from future operating results (utilizing a discount rate equal to the Company's average cost of funds at that time) and the balance sheet value. The recoverability of goodwill is at risk to the extent the Company is unable to achieve its forecast assumptions regarding cash flows from operating results. At February 27, 1999, the Company estimates that the cash flows projected to be generated by the respective businesses on an undiscounted basis should be sufficient to recover the existing goodwill balance over its remaining life.

Long-Lived Assets

In accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" which establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of, the Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

Such review is based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets are recoverable from their respective cash flows.

The Company recorded impairment losses during the year ended February 27, 1999 (see "Store and Facilities Exit Costs" footnote).

Income Taxes

The Company provides deferred income taxes on temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

Current Liabilities

Certain accounts payable checks issued but not presented to banks frequently result in negative book balances for accounting purposes. Such amounts are classified as "Book overdrafts" in the accompanying balance sheets.

The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $79 million at both February 27, 1999 and February 28, 1998 are included in the balance sheet caption "Accrued salaries, wages and benefits".

Stock-Based Compensation

Effective February 25, 1996, the Company adopted SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"). In conjunction with the adoption, the Company will continue to apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" with pro forma disclosure of net income and earnings per share as if the fair value based method prescribed by SFAS 123 had been applied.

Comprehensive Income

Effective March 1, 1998 the Company adopted SFAS No. 130, "Reporting Comprehensive Income". This statement requires that all components of comprehensive income be reported prominently in the financial statements. Currently, the Company has other comprehensive income relating to foreign currency translation adjustment and minimum pension liability adjustment.

Accumulated other comprehensive loss as of February 27, 1999 includes foreign currency translation of $64.8 million and an additional minimum pension liability adjustment of $4.3 million, net of income tax benefit of $3.4 million. The accumulated other comprehensive loss as of February 28, 1998 includes foreign currency translation of $54.8 million and an additional minimum pension liability adjustment of $6.2 million. For fiscal 1997, the additional minimum pension liability adjustment related to the Canadian operations and thus no tax benefit was recorded due to the Canadian deferred tax assets being fully reserved by a valuation allowance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date

of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying balance sheets include liabilities with respect to self-insured workers' compensation and general liability claims. The Company determines the required liability of such claims based upon various assumptions which include, but are not limited to, the Company's historical loss experience, industry loss standards, projected loss development factors, projected payroll, employee headcount and other internal data. It is reasonably possible that the final resolution of some of these claims may require significant expenditures by the Company in excess of its existing reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements in order to conform to the current year's presentation.

New Accounting Pronouncements Not Yet Adopted

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires that all derivative instruments be measured at fair value and recognized in the statement of financial position as either assets or liabilities. In addition, the accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and the resulting designation. For a derivative designated as a hedge the change in fair value will be recognized as a component of other comprehensive income; for a derivative not designated as a hedge the change in the fair value will be recognized in the statement of operations. Currently the Company has one derivative instrument in the form of a cross-currency swap. The Company will adopt SFAS 133 in the second quarter of fiscal 1999. The cross-currency swap will impact the Company's statement of operations and balance sheet to the extent that there is a change in the fair value of the derivative instrument.

STORE AND FACILITIES EXIT COSTS

In May 1998, the Company named a sole Chief Executive Officer of the Company. Following such announcement, the Company initiated a vigorous assessment of all aspects of its business operations in order to identify the factors that were impacting the performance of the Company.

As a result of the above assessment, in the third quarter of fiscal 1998, the Company decided to exit two warehouse facilities, a coffee plant and a bakery plant in Canada. In connection with the exit plan, the Company recorded a charge of approximately $11 million which is included in "Store operating, general and administrative expense" in the accompanying Statement of Operations. The $11 million charge was comprised of $7 million of severance, $3 million of facilities occupancy costs for the period subsequent to closure and $1 million to write-down the facilities to their estimated fair value. The Company has paid $3 million of the severance cost as of February 27, 1999, and expects the remainder to be paid by the end of fiscal 1999. As of February 27, 1999, the Company has incurred $0.3 million of occupancy costs.

At February 27, 1999, the Company had closed and terminated operations with respect to the warehouses and the coffee plant. The volume associated with the two warehouses has been transferred to other warehouses in close geographic proximity. Further, the manufacturing processes of the coffee plant have been transferred to the Company's remaining coffee processing facility. The processing associated with the Canadian bakery has been outsourced effective January 1999.

In addition, on December 8, 1998, the Company's Board of Directors approved a plan which included the exit of 127 underperforming stores throughout the United States and Canada and the disposal of two other properties. Included in the 127 stores are 31 stores representing the entire Richmond, Virginia market. Further on January 28, 1999, the Board of Directors approved the closure of five additional underperforming stores. In connection with the Company's plan to exit these 132 stores and the write-down of two properties, the Company recorded a fourth quarter charge of approximately $215 million. This $215 million charge was comprised of $8 million of severance, $1 million of facilities occupancy costs, $114 million of store occupancy costs, which principally relates to the present value of future lease obligations, net of anticipated sublease recoveries, which extend through fiscal 2028, an $83 million write-down of store fixed assets and a $9 million write-down to estimated fair value of the two properties which are held for sale. To the extent fixed assets included in those stores identified for closure could be utilized in other continuing store locations, the Company has or will transfer such assets to

those continuing stores. To the extent such fixed assets cannot be transferred, the Company will scrap such fixed assets and accordingly, the write-down was calculated utilizing an estimated scrap value. This fourth quarter charge of $215 million was reduced by approximately $2 million due to changes in estimates of pension withdrawal liabilities and fixed asset write-downs from the time the original charge was recorded. The net charge of $213 million is included in "Store operating, general and administrative expense" in the accompanying Statement of Operations. The Company has paid $1 million of the severance costs as of February 27, 1999 and expects the remainder to be paid by May 2000. In addition, the Company also paid $1 million of store occupancy costs since the date of closure of the 66 stores closed as of February 27, 1999. The total severance charge of approximately $15 million resulted from the termination of 1,273 employees.

The following tabular reconciliation summarizes the activity related to the aforementioned third quarter charges of $11 million and the fourth quarter charges of $215 million.

(Dollars in thousands)	Original Charge	Utilization	Addition (1)	Adjustment (2)	Reserve Balance at Feb. 27, 1999
Store Occupancy	$113,732	$ (1,100)	$1,900	$ -	$114,532
Fixed Assets	93,355	(92,639)	-	(716)	-
Severance and benefits	15,102	(3,794)	-	(1,242)	10,066
Facilities occupancy	4,018	(311)	-	331	4,038
Total	$226,207	$(97,844)	$1,900	$(1,627)	$128,636

(1) The addition represents an increase to the store occupancy reserve for the present value interest accrued.

(2) The adjustment represents changes in estimates from the original date the respective charges were recorded. The adjustment to severance and benefits relates to a change in the estimate of the calculated pension withdrawal liability.

As of February 27, 1999, the Company has closed 66 of the 132 stores identified, including all 31 stores in the Richmond, Virginia market. The remaining 66 stores will be closed over the next three quarters of fiscal 1999.

At February 27, 1999, $45.4 million of the reserve is included in "Other accruals" and $83.2 million is included in "Other non-current liabilities" in the accompanying consolidated balance sheet.

Based upon current available information, Management evaluated the reserve balance as of February 27, 1999 and has concluded that it is adequate.

Included in the accompanying statement of operations are the operating results of the 132 underperforming stores which the Company is exiting. The operating results of such stores are as follows:

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Sales	$ 788,014	$ 928,671	$1,000,364
Operating Loss	$ (57,462)	$ (34,448)	$ (14,543)

INVENTORY

Approximately 18% and 20% of the Company's inventories are valued using the last-in, first-out ("LIFO") method at February 27, 1999 and February 28, 1998, respectively. Such inventories would have been $19 million and $14 million higher at February 27, 1999 and February 28, 1998, respectively, if the retail and first-in, first-out methods were used. The Company recorded LIFO charges of approximately $1 million during both fiscal years 1998 and 1996. During fiscal year 1997, the Company recorded a LIFO credit of $0.4 million. Liquidation of LIFO layers in the periods reported did not have a significant effect on the results of operations.

FOOD BASICS FRANCHISE BUSINESS

The Company serviced 55 Food Basics franchised stores as of February 27, 1999 and 52 stores as of February 28, 1998. These franchised stores are required to purchase inventory exclusively from the Company which acts as a wholesaler to the franchisees. During fiscal 1998 and 1997, the Company had wholesale sales to these franchised stores of $387 million and $340 million, respectively. A majority of the Food Basics franchised stores were converted from Company operated supermarkets. The Company subleases the stores and leases the equipment in the stores to the franchisees. The Company also provides merchandising, advertising, accounting and other consultative services to the franchisees for which it receives a nominal fee which mainly represents the reimbursements of costs incurred to provide such services (see "Lease Obligations" footnote).

Included in other assets are Food Basics franchised business receivables, net of allowance for doubtful accounts, amounting to $36.4 million as of February 27, 1999 and $37.6 million as of February 28, 1998. The inventory notes are collateralized by the inventory in the stores, while the equipment lease receivables are collateralized by the equipment in the stores. The current portion of the inventory and equipment leases of approximately $2.1 million as of February 27, 1999 and $1.9 million as of February 28, 1998 are included in accounts receivable. The repayment of the inventory notes and equipment leases are dependent on positive operating results of the stores. To the extent that the franchisees incur operating losses, the Company establishes an allowance for doubtful accounts. The Company continually assesses the sufficiency of the allowance on a store

by store basis based upon the operating losses incurred and the related collateral underlying the amounts due from the franchisees. In the event of default by a franchisee, the Company reserves the option to reacquire the inventory and equipment at the store and operate the franchise as a corporate owned store.

Included below are the amounts due to the Company for the next five years and thereafter from the franchised stores for equipment leases and inventory notes.

(Dollars in thousands)	
1999	$ 6,031
2000	6,542
2001	6,542
2002	6,542
2003	6,542
2004 and thereafter	20,331
	52,530
Less interest portion	(13,995)
Due from Food Basics franchise business	$38,535

For the fiscal years ended February 27, 1999 and February 28, 1998, approximately $8 million and $2 million, respectively, of the franchise business notes relate to equipment leases which were non-cash transactions and, accordingly, have been excluded from the consolidated statements of cash flows.

INDEBTEDNESS

Debt consists of:

(Dollars in thousands)	February 27, 1999	February 28, 1998
7.75% Notes, due April 15, 2007	$300,000	$300,000
7.70% Senior Notes, due January 15, 2004	200,000	200,000
7.78% Notes, due November 1, 2000	75,000	75,000
Mortgages and Other Notes, due 1999 through 2002 (average interest rates at year end of 5.81% and 6.70%, respectively)	7,417	11,972
U.S. Bank Borrowings at 5.49% and 5.86%, respectively	153,100	127,500
Less unamortized discount on 7.75% Notes	(2,171)	(2,356)
	733,346	712,116
Less current portion	(4,956)	(16,824)
Long-term debt	$728,390	$695,292

On June 10, 1997, the Company executed an unsecured five year $465 million U.S. credit agreement and a five year C$50 million Canadian credit agreement (the "1997 Credit Agreement") with a syndicate of banks, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings. The Company pays a facility fee of 0.25% per annum on the total commitment of the U.S. and Canadian revolving credit facilities. Borrowings under the U.S. revolving credit agreement were $130 million and $90 million at February 27, 1999 and February 28, 1998, respectively. The Canadian subsidiary had no outstanding borrowings at February 27, 1999 and February 28, 1998. As of February 27, 1999, the Company had available $335 million under its U.S. credit agreement and C$50 million (U.S. $33 million at February 27, 1999) under the Canadian credit agreement. As of February 28, 1998, the Company had available $375 million under its U.S. credit agreement and C$50 million (U.S. $35 million at February 28, 1998) under the Canadian credit agreement. In addition, the U.S. has uncommitted lines of credit with various banks amounting to $211 million and $149 million as of February 27, 1999 and February 28, 1998, respectively. Borrowings under these uncommitted lines of credit amounted to $23 million and $38 million as of February 27, 1999 and February 28, 1998, respectively. As of February 27, 1999, the Company had $368 million available under the 1997 Credit Agreement and $188 million in uncommitted lines of credit.

As of February 27, 1999, the Company had outstanding a total of $575 million of unsecured, non-callable public debt securities in the form of $75 million 7.78% Notes due November 1, 2000, $200 million 7.70% Notes due January 15, 2004 and $300 million 7.75% Notes due April 15, 2007.

On April 15, 1997, the Company issued $300 million 7.75% 10 year Notes due April 15, 2007. The Company used the net proceeds to reduce bank borrowings under the U.S. and Canadian revolving credit facilities, prepay other indebtedness and for general corporate purposes. The Company borrowed funds available under the U.S. credit facility to repay at maturity indebtedness owing in respect of the Company's 9 1/8% Notes due January 15, 1998.

The Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Ltd. ("A&P Canada"), has outstanding U.S. $75 million 5 year Notes denominated in U.S. dollars that were issued in October 1995 and are due on November 1, 2000. In conjunction with the issuance of the notes, A&P Canada entered into a five year cross-currency swap agreement expiring November 1, 2000. The cross-currency swap was executed for protection against the effect of a decrease in Canadian exchange rates on both the semi-annual interest payments and the final principal payment due to the Company's U.S. bondholders. The cross-currency swap enables the Company to pay in Canadian dollars a fixed

rate of interest of 9.23% on a notional amount of C$100 million for the $75 million 7.78% Notes denominated in U.S. dollars. The cost of the cross-currency swap of 1.45% is charged to interest expense. The Company records an asset or liability to the extent that an eventual transaction gain or loss is expected to be recorded upon the settlement of the notional amount of the underlying debt. Accordingly, the Company has recorded in other assets the receivable due from the counterparty amounting to approximately $8.4 million and $4.5 million as of February 27, 1999 and February 28, 1998, respectively. The fair value of the cross-currency swap was favorable to the Company by $6.9 million as of February 27, 1999 and favorable to the Company by $1 million as of February 28, 1998. The Company is exposed to credit losses in the event of nonperformance by the counterparty to its currency swap. However, the Company anticipates that the counterparty will be able to fully satisfy its obligations under the contracts.

On April 15, 1997, A&P Canada entered into an interest rate swap agreement with a notional amount of C$100 million expiring November 1, 2000 where the Company receives a fixed rate of interest and pays a variable rate of interest. In August of 1998, A&P Canada assigned the interest rate swap agreement to a financial institution and received consideration of $0.6 million. The consideration received is amortized as a reduction to interest expense until November 1, 2000. The fair value of the interest rate swap was favorable to the Company by $1.4 million as of February 28, 1998.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum net worth and maximum levels of indebtedness and lease commitments. As a result of the store exit charge recorded on December 8, 1998 (see "Store and Facilities Exit Costs" in the accompanying financial statements), the Company would not have been in compliance with certain of its covenants as of February 27, 1999, relating to the 1997 Credit Agreement. The Company amended the 1997 Credit Agreement prior to February 27, 1999. Accordingly, the Company was in compliance with all such financial covenants, as amended, as of February 27, 1999 and believes that it will continue to be in compliance.

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately $9 million and $14 million as of February 27, 1999 and February 28, 1998, respectively.

In the second quarter of fiscal 1997, the Company recorded an extraordinary charge of $0.5 million, net of a tax benefit of $0.4 million relating to the early extinguishment of debt which amounted to $.01 per share - basic and diluted. The Company retired at a premium approximately $20 million in mortgages with a weighted average interest rate of 9.4%.

The U.S. bank borrowings of $153 million and $118 million are classified as non-current as of February 27, 1999 and February 28, 1998, respectively, as the Company has the ability and intent to refinance these borrowings on a long-term basis.

Pursuant to a Shelf Registration Statement dated January 23, 1998, the Company may offer up to $500 million of debt and equity securities at terms determined by market conditions at the time of sale.

Maturities for the next five fiscal years and thereafter are: 1999-$5 million; 2000-$77 million; 2001-$77 million; 2002-$77 million; 2003-$200 million; 2004 and thereafter - $300 million. Interest payments on indebtedness were approximately $56 million for fiscal 1998, $58 million for fiscal 1997 and $49 million for fiscal 1996.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are as follows:

(Dollars in thousands)	February 27, 1999		February 28, 1998	
Liabilities:	Carrying Amount	Fair Value	Carrying Amount	Fair Value
7.75% Notes, due April 15, 2007	$297,829	$287,384	$297,644	$299,531
7.70% Senior Notes, due January 15, 2004	$200,000	$197,271	$200,000	$205,376
7.78% Notes, due November 1, 2000	$ 75,000	$ 75,243	$ 75,000	$ 75,832
Total Indebtedness	$733,346	$720,415	$712,116	$720,211

Fair value for the public debt securities is based on quoted market prices. With respect to all other indebtedness, Management has evaluated such debt instruments and has determined, based on interest rates and terms, that the fair value of such indebtedness approximates carrying value at both February 27, 1999 and February 28, 1998. As of February 27, 1999 and February 28, 1998, the carrying values of cash and short-term investments, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

On April 15, 1997, the Company's Canadian subsidiary entered into an interest rate swap agreement with a notional amount of C$100 million where the Company receives a fixed rate of interest and pays a variable rate of interest.

At February 27, 1999 and February 28, 1998, the estimated fair values of the cross-currency swap and interest rate swap agreements were as follows:

(Dollars in thousands)	February 27, 1999		February 28, 1998	
Liabilities:	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cross-currency swap	$8,438	$6,927	$4,504	$1,077
Interest rate swap	-	-	-	1,350
Total cross-currency/ interest rate swap	$8,438	$6,927	$4,504	$2,427

The fair values were determined by the counterparty, which is a widely recognized investment banker.

As of the end of fiscal 1998, the Company holds equity securities of both common and cumulative preferred stock in Isosceles PLC, which were written-off in their entirety during fiscal 1992. There are no quoted market prices for these securities and it is not practicable, considering the materiality of these securities to the Company, to obtain an estimate of their fair value. The Company believes that the fair value for these securities is zero based upon Isosceles' current and prior years' results.

LEASE OBLIGATIONS

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company also leases some store equipment and trucks.

The consolidated balance sheets include the following:

(Dollars in thousands)	February 27, 1999	February 28, 1998
Real property leased under capital leases	$210,094	$213,076
Accumulated amortization	(121,066)	(123,018)
	$ 89,028	$ 90,058

During fiscal 1998 and 1996, the Company entered into new capital leases totaling $12 and $22 million, respectively. The Company did not enter into any new capital leases during fiscal 1997. These capital lease amounts are non-cash transactions and, accordingly, have been excluded from the consolidated statement of cash flows. Interest paid as part of capital lease obligations was approximately $14, $16 and $17 million in fiscal 1998, 1997 and 1996, respectively.

Rent expense for operating leases consists of:

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Minimum rentals	$193,703	$181,061	$162,752
Contingent rentals	3,987	5,109	5,383
	$197,690	$186,170	$168,135

Future minimum annual lease payments for capital leases and noncancelable operating leases in effect at February 27, 1999 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established. In addition, the Company subleases 55 stores to the Food Basics franchise business. Included in the operating lease table below are the rental payments made by the Company offset by the rental income received from the Food Basics franchised stores.

(Dollars in thousands) Fiscal	Capital Leases Real Property	Operating Leases
1999	$ 25,484	$ 190,989
2000	24,404	185,555
2001	23,440	179,255
2002	21,601	169,886
2003	19,176	159,727
2004 and thereafter	139,496	1,580,434
	253,601	$2,465,846
Less executory costs	(1,520)	
Net minimum rentals	252,081	
Less interest portion	(124,735)	
Present value of net minimum rentals	$ 127,346	

INCOME TAXES

The components of (loss) income before income taxes and extraordinary item are as follows:

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
United States	$(244,573)	$ 45,644	$ 68,478
Canadian	15,289	37,256	32,113
Total	$(229,284)	$ 82,900	$ 100,591

The (benefit) provision for income taxes before extraordinary item consists of the following:

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Current:			
Federal	$ -	$ 4,171	$24,228
Canadian	552	700	700
State and local	3,000	3,018	3,698
	3,552	7,889	28,626
Deferred:			
Federal	(77,489)	11,076	(926)
Canadian	6,806	16,624	14,329
State and local	(25,786)	349	(141)
Canadian valuation allowance	(69,203)	(16,624)	(14,329)
	(165,672)	11,425	(1,067)
	$(162,120)	$ 19,314	$ 27,559

The deferred income tax provision (benefit) results primarily from the annual change in temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws, Canadian net operating tax loss carryforwards and the Canadian valuation allowance.

The Company recorded income tax benefits amounting to $162 million in fiscal 1998 as compared to income tax provisions of $19 million for fiscal 1997 and $28 million for fiscal 1996. The fiscal 1998 benefit of $162 million includes reversals of the Canadian operations deferred tax valuation allowance. During the first three quarters of fiscal 1998, the Company reversed approximately $9 million of the Canadian valuation allowance to the extent that the Canadian operations had taxable income. In addition, at the beginning of the fourth quarter of fiscal 1998, the Company concluded that it was more likely than not that the net deferred tax assets related to the Canadian operations would be realized and accordingly, the Company reversed the remaining portion of the Canadian deferred tax valuation allowance amounting to approximately $60 million. The deferred tax benefit recorded for U.S. operations of approximately $103 million mainly relates to book and tax differences of the store and facilities exit costs recorded in fiscal 1998. The fiscal 1997 and 1996 income tax provisions include reversals of the Canadian valuation allowance of $17 million and $14 million, respectively. These reversals were recorded to the extent that the Canadian operations had taxable income. However, Management had still concluded that it was more likely than not that the Canadian net deferred tax assets would not be realized and through the end of fiscal 1997, the Company provided a full valuation allowance for its Canadian net deferred tax assets, principally net operating loss carryforwards. During the first three quarters of fiscal 1998, the Company continued to fully reserve its Canadian net deferred tax assets. At the beginning of the fourth quarter of fiscal 1998, based upon Management's plan to close underperforming stores in Canada (see " Store and Facilities Exit Costs" footnote), the implementation of certain tax strategies and the continued performance improvements of the Canadian operations, Management has concluded that it is more likely than not that the Canadian deferred tax assets will be realized. As such, as of December 6, 1998, the Company reversed the remaining deferred tax asset valuation allowance amounting to approximately $60 million.

The Company made an election to permanently reinvest earnings of the Canadian subsidiary. Accordingly, the Company does not provide for taxes associated with Canada's undistributed earnings.

The Company's Canadian net operating tax loss carryforwards of approximately $102 million will expire between February 2001 and February 2003.

A reconciliation of income taxes at the 35% federal statutory income tax rate for fiscal 1998, 1997 and 1996 to income taxes as reported is as follows:

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Income taxes computed at federal statutory income tax rate	$ (80,249)	$29,015	$35,207
State and local income taxes, net of federal tax benefit	(14,810)	2,188	2,312
Tax rate differential relating to Canadian operations	2,007	4,155	3,789
Canadian valuation allowance	(69,203)	(16,624)	(14,329)
Goodwill and other permanent differences	135	580	580
Income taxes, as reported	$(162,120)	$19,314	$27,559

Income tax payments, net of refunds, for fiscal 1998 and 1996 were approximately $2 and $13 million, respectively. For fiscal 1997, the Company had net income tax refunds of $1 million.

The components of net deferred tax assets (liabilities) are as follows:

(Dollars in thousands)	February 27, 1999	February 28, 1998
Current assets:		
Insurance reserves	$ 20,158	$22,420
Other reserves and accrued benefits	12,146	5,031
Accrued postretirement and postemployment benefits	2,717	3,038
Lease obligations	1,472	1,619
Pension obligations	4,486	3,827
Miscellaneous	4,055	2,870
	45,034	38,805
Current liabilities:		
Inventories	(14,697)	(14,819)
Health and welfare	(9,167)	(9,960)
Miscellaneous	(6,519)	(7,083)
	(30,383)	(31,862)
Valuation allowance	-	(3,005)
Deferred income taxes included in prepaid expenses and other current assets	$14,651	$ 3,938

(Dollars in thousands)	February 27, 1999	February 28, 1998
Non-current assets:		
Isosceles investment	$ 42,617	$ 42,617
Alternative minimum tax	7,500	-
Fixed assets	3,449	4,077
Other reserves	93,470	6,177
Lease obligations	15,787	17,354
Canadian loss carryforwards	45,500	60,270
Insurance reserves	5,881	4,200
Accrued postretirement and postemployment benefits	35,387	29,808
Pension obligations	7,527	6,800
Step rents	13,619	11,352
Miscellaneous	5,308	7,759
	276,045	190,414
Non-current liabilities:		
Fixed assets	(215,977)	(212,044)
Pension obligations	(21,136)	(22,981)
Miscellaneous	(2,590)	(2,404)
	(239,703)	(237,429)
Valuation allowance	-	(73,603)
Net non-current deferred income tax asset (liability)	$ 36,342	$(120,618)

The net non-current deferred tax asset and liability is recorded in the consolidated balance sheet as follows:

(Dollars in thousands)	February 27, 1999	February 28, 1998
Other assets	$ 59,651	-
Non-current liability	(23,309)	$(120,618)
Net non-current deferred income tax asset (liability)	$ 36,342	$(120,618)

RETIREMENT PLANS AND BENEFITS

Defined Benefit Plans

The Company provides retirement benefits to certain non-union and some union employees under various defined benefit plans. The Company's defined benefit pension plans are non-contributory and benefits under these plans are generally determined based upon years of service and, for salaried employees, compensation. The Company funds these plans in amounts consistent with the statutory funding requirements.

During fiscal 1998, the Company adopted SFAS No. 132, "Employers' Disclosure about Pension and Postretirement Benefits" ("SFAS 132"). SFAS 132 standardizes the disclosure requirements for pension and other postretirement benefits. This Statement addresses disclosure only. It does not address expense recognition or liability measurement. Accordingly, there was no effect on financial position or net income as a result of adopting SFAS 132.

The components of net pension cost are as follows:

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Service cost	$ 14,014	$ 11,942	$ 10,826
Interest cost	25,872	26,192	24,798
Expected return on plan assets	(32,040)	(31,279)	(29,640)
Amortization of unrecognized net asset	(1,184)	(1,244)	(1,266)
Amortization of unrecognized net prior service cost	1,237	1,158	1,105
Amortization of unrecognized net actuarial loss	506	380	134
Curtailments and settlements	863	-	-
Net pension cost	$ 9,268	$ 7,149	$ 5,957

The Company's defined benefit pension plans are accounted for on a calendar year basis. The majority of plan assets is invested in listed stocks and bonds. The following tables set forth the change in benefit obligations and change in plan assets at year-end 1998 and 1997 for the Company's defined benefit plans:

(Dollars in thousands)		
Change in Benefit Obligation	1998	1997
Benefit obligation – beginning of year	$403,970	$355,731
Service cost	14,014	11,942
Interest cost	25,872	26,192
Actuarial loss	18,991	37,839
Benefits paid	(24,948)	(19,260)
Amendments	167	1,001
Curtailment and settlements	460	-
Effect of exchange rates	(15,370)	(9,475)
Benefit obligation – end of year	$423,156	$403,970
Change in Plan Assets		
Plan assets at fair value – beginning of year	$444,408	$401,503
Actual return on plan assets	46,412	64,141
Company contributions	10,019	10,710
Benefits paid	(24,948)	(19,260)
Effect of exchange rates	(17,356)	(12,686)
Plan assets at fair value – end of year	$458,535	$444,408
Amounts recognized in the Company's balance sheet consist of the following:		
Plan assets in excess of projected benefit obligation	$ 35,506	$ 40,505
Unrecognized net transition asset	(4,078)	(5,482)
Unrecognized prior service cost	5,408	6,442
Unrecognized net actuarial gain	(8,105)	(10,758)
Total recognized in the consolidated balance sheet	$ 28,731	$ 30,707
Prepaid benefit cost	$ 51,480	$ 50,779
Accrued benefit liability	(33,198)	(29,056)
Intangible asset	2,734	2,774
Other comprehensive income	4,288	6,210
Tax benefit	3,427	-
Total recognized in the consolidated balance sheet	$ 28,731	$ 30,707
Plans with accumulated benefit obligation in excess of plan assets consist of the following:		
Accumulated benefit obligation	$111,738	$102,619
Projected benefit obligation	$116,800	$107,637
Plan assets at fair value	$ 85,199	$ 81,870

The prepaid pension asset is included in other assets while the pension liability is included in accrued salaries, wages and benefits and other non-current liabilities.

At February 27, 1999 and February 28, 1998, the Company's additional minimum pension liability for its defined benefit plans was in excess of the unrecognized prior service costs and net transition obligation and accordingly, $4.3 million, net of income tax benefit and $6.2 million was reflected as a reduction to shareholders' equity, respectively. The fiscal 1997 amount was not tax effected as it related to the Canadian subsidiary which has its deferred tax assets fully reserved by a valuation allowance.

During the year ended February 25, 1995, the Company's Canadian subsidiary and the United Food & Commercial Workers International Union, Locals 175 and 633, entered into an agreement which will result in the amalgamation of three of the Company's Canadian defined benefit pension plans with the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), retroactive to July 1, 1994, subject to the approval of the CCWIPP trustees and the appropriate regulatory bodies. Under the terms of this agreement, CCWIPP will assume the assets and defined benefit liabilities of the three pension plans and the Company will be required to make defined contributions to CCWIPP based upon hours worked by employees who are members of CCWIPP. The Company expects that the necessary approvals will be received by July 1999. The transfer to CCWIPP has been delayed for the past four years as the regulatory bodies have taken longer to review the transfer than originally anticipated. The Company will not change the reporting for these three plans until such approval is received. Accordingly, at February 27, 1999 and February 28, 1998, prepaid pension assets of approximately $16 million and $11 million, respectively, related to the aforementioned plans are included in the table herein.

Actuarial assumptions used to determine year-end plan status are as follows:

	1998		1997	
	U.S.	Canada	U.S.	Canada
Weighted average discount rate	6.50%	6.25%	7.00%	6.75%
Weighted average rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Expected long-term rate of return on plan assets	8.00%	8.40%	8.00%	8.40%

The impact of the changes in the actuarial assumptions has been reflected in the funded status of the pension plans and the Company believes that such changes will not have a material effect on net pension cost for fiscal 1999.

Defined Contribution Plans

The Company maintains a defined contribution retirement plan to which the Company contributes an amount equal to 4% of eligible participants' salaries and a savings plan to which eligible participants may contribute a percentage of eligible salary. The Company contributes to the savings plan based on specified percentages of the participants' eligible contributions. Participants become fully vested in the Company's contributions after 5 years of service. The Company's contributions charged to operations for both plans were approximately $11 million in fiscal 1998, fiscal 1997 and fiscal 1996.

Multi-employer Union Pension Plans

The Company participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The pension expense for these plans approximated $34 million in fiscal 1998 and $38 million in both fiscal 1997 and 1996. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans. At this time, the Company has not established any liabilities because such withdrawal from these plans is not probable.

Postretirement Benefits

The Company provides postretirement health care and life benefits to certain union and non-union employees. The Company recognizes the cost of providing postretirement benefits during employees' active service period.

The components of net postretirement benefits cost are as follows:

(Dollars in thousands)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Service cost	$1,666	$ 788	$ 794
Interest cost	3,464	2,518	2,394
Prior service cost	(263)	-	-
Amortization of (gain) loss	27	(1,056)	(1,100)
Net postretirement benefits cost	$4,894	$2,250	$2,088

The unfunded status of the plans is as follows:

(Dollars in thousands)	Fiscal 1998	Fiscal 1997
Unfunded accumulated benefit obligation, beginning of year:	$ 48,980	$ 34,931
Service cost	1,666	788
Interest cost	3,464	2,518
Benefits paid	(2,790)	(2,406)
Actuarial (gain) loss	1,837	13,449
Plan amendment	(16,162)	-
Foreign exchange	(305)	(300)
Accumulated benefit obligation, at end of year	36,690	48,980
Unrecognized net gain from experience differences	221	1.976
Unrecognized prior service cost	15,899	-
Accrued postretirement benefit costs at end of year	$ 52,810	$ 50,956
Assumed discount rate	6.5%	7.0%

The assumed rate of future increase in health care benefit cost for fiscal 1998 was 9.5% and is expected to decline to 5.0% by the year 2020 and remain at that level thereafter. The effect of a 1% change in the assumed health care cost trend rate for each future year on the net postretirement health care cost would either increase or decrease by $0.3 million, while the accumulated postretirement benefit obligation would either increase by $3.0 million or decrease by $2.5 million.

Postemployment Benefits

The Company accrues costs for preretirement postemployment benefits provided to former or inactive employees and recognizes an obligation for these benefits. The costs of these benefits have been included in operations for each of the three fiscal years in the period ended February 27, 1999. As of February 27, 1999 and February 28, 1998, the Company has a liability reflected in the balance sheet of $24 million and $25 million, respectively, with respect to such benefits.

STOCK OPTIONS

Effective February 25, 1996, the Company adopted SFAS 123 which establishes financial accounting and reporting standards for stock-based employee compensation plans. SFAS 123 encourages all entities to adopt a fair value based method of accounting for stock-based compensation plans in which compensation cost is measured at the date the award is granted based on the fair value of the award and is recognized over the employees' service period. However, SFAS 123 allows an entity to continue to use the intrinsic value-based method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), with pro forma disclosures of net income and earnings per share as if the fair value based method had been applied. APB 25 requires compensation expense to be recognized over the employees' service period based on the excess, if any, of the quoted market price of the stock at the date the award is granted or other measurement date, as applicable, over an amount an employee must pay to acquire the stock.

On January 19, 1999, the Board of Directors approved the 1998 Long Term Incentive and Share Award Plan (the "1998 Plan") for its officers and key employees, subject to shareholder approval at the Company's Annual Meeting in July 1999. The Company has obtained an irrevocable proxy voting in favor of the 1998 Plan from the major shareholder who owns in excess of 54% of the Company's common stock. The 1998 Plan provides for the granting of 5,000,000 shares as either options, stock appreciation rights ("SAR") or stock awards. At February 27, 1999, the Company has four fixed stock-based compensation plans. The Company applies the principles of APB 25 for stock options and FASB Interpretation No. 28 for SAR. Most of the options and SAR vest over a four year period on the anniversary date of issuance, while some options vest immediately.

The Company's 1994 Stock Option Plan (the "1994 Plan") for officers and key employees provides for the granting of 1,500,000 shares as either options or SAR. The 1,500,000 shares to be granted under the 1994 Plan were fully utilized as of February 26, 1999. The 1984 Stock Option Plan for officers and key employees, which expired on February 1, 1994, provided for the granting of 1,500,000 shares and was amended as of July 10, 1990 to increase by 1,500,000 the number of options available for grant as either options or SAR.

Options and SAR issued under all of the Company's plans are granted at the fair market value of the Company's common stock at the date of grant. SAR allows the holder, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. In fiscal 1998, 473,000 options were granted under the 1994 Plan and 423,000 options were

granted under the 1998 Plan. There were no SAR granted during fiscal 1998.

The 1994 Stock Option Plan for Board of Directors provides for the granting of 100,000 stock options at the fair market value of the Company's common stock at the date of grant. Options granted under this plan totaled 1,600 in both fiscal 1998 and 1997 and 5,200 in fiscal 1996.

The fair value of the fiscal 1998, 1997 and 1996 option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: fiscal 1998, 1997 and 1996; expected volatility of 30% and expected life of 7 years for all three years. The dividend yield was between 1.23% and 1.63% in both fiscal 1998 and 1997 and 0.72% and 0.91% in fiscal 1996. The risk-free interest rates used for the grants are between 5.14% and 5.63% in fiscal 1998, 6.11% and 6.84% in fiscal 1997 and 5.57% and 6.94% in fiscal 1996.

The Company recognized compensation expense of $0.6 million in fiscal 1998, $1.4 million in fiscal 1997 and $5.8 million in fiscal 1996 with respect to SAR. There was no compensation expense recognized for the other fixed plans since the exercise price of the stock options equaled the fair market value of the Company's common stock on the date of grant. Had compensation cost for the Company's stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value methods prescribed by SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Dollars in thousands, except per share amounts)	Fiscal 1998	Fiscal 1997	Fiscal 1996
Net (loss) income:			
As reported	$(67,164)	$63,042	$73,032
Pro forma	$(68,987)	$61,584	$71,920
Net (loss) income per share - basic and diluted:			
As reported	$(1.75)	$1.65	$1.91
Pro forma	$(1.80)	$1.61	$1.88

The pro forma effect on net income and earnings per share may not be representative of the pro forma effect in future years because it includes compensation cost on a straight-line basis over the vesting periods of the grants and does not take into consideration the pro forma compensation costs for grants made prior to fiscal 1995.

A summary of option transactions is as follows:

Officers, Key Employees and Directors	Shares	Weighted Average Exercise Price
Outstanding February 24, 1996	745,600	$27.38
Granted	70,200	27.72
Cancelled or expired	(63,350)	26.13
Exercised	(27,383)	23.85
Outstanding February 22, 1997	725,067	$27.66
Granted	329,100	28.06
Cancelled or expired	(98,967)	27.76
Exercised	(5,250)	27.88
Outstanding February 28, 1998	949,950	$27.78
Granted	897,600	31.32
Cancelled or expired	(10,000)	27.88
Exercised	(37,750)	27.88
Outstanding February 27, 1999	1,799,800	$29.55
Exercisable at:		
February 28, 1998	312,367	$27.60
February 27, 1999	499,399	$27.68

Weighted average fair value of options granted during the year ended:

February 22, 1997	$11.94
February 28, 1998	$10.96
February 27, 1999	$11.72

A summary of stock options outstanding and exercisable at February 27, 1999 is as follows:

	Options Outstanding			Options Exercisable	
Range Of Exercise Prices	Number Outstanding at Feb. 27, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Feb. 27, 1999	Weighted Average Exercise Price
$21.50 - $26.13	101,200	7.7 years	$24.61	38,700	$24.17
$26.50 - $27.50	128,600	7.6 years	$27.28	57,533	$27.22
$27.63 - $27.75	121,200	7.4 years	$27.73	42,450	$27.71
$27.88	461,000	6.3 years	$27.88	336,000	$27.88
$30.25 - $32.56	987,800	9.7 years	$31.36	24,716	$31.52
	1,799,800			499,399	

A summary of SAR transactions is as follows:

Officers and Key Employees	Shares	Price Range Per Share
Outstanding February 24, 1996	2,152,750	$21.50 - $65.13
Granted	86,500	27.25 - 31.63
Cancelled or expired	(20,000)	27.38 - 56.13
Exercised	(247,237)	21.50 - 34.75
Outstanding February 22, 1997	1,972,013	$21.88 - $65.13
Granted	10,000	- 26.63
Cancelled or expired	(136,750)	23.38 - 52.38
Exercised	(187,275)	23.00 - 27.25
Outstanding February 28, 1998	1,657,988	$21.88 - $65.13
Granted	-	-
Cancelled or expired	(388,625)	27.45 - 46.38
Exercised	(89,644)	21.88 - 27.25
Outstanding February 27, 1999	1,179,719	$21.88 - $65.13
Exercisable at:		
February 28, 1998	1,596,863	$21.88 - $65.13
February 27, 1999	1,138,969	$21.88 - $65.13

LITIGATION

On August 28, 1998, Capital Graphics Advertising Agency, Inc. ("Capital Graphics") was awarded a verdict against the Company amounting to $4 million. This lawsuit is the result of the Company terminating a relationship with an Atlanta printer which the Company felt that it had a right to terminate. However, a jury awarded Capital Graphics damages, plus interest and litigation expenses totaling $4 million. During the second quarter of fiscal 1998, the Company recorded a $4 million charge included in store operating, general and administrative expense. The Company believes that it has several strong bases for the appellate court to set aside the jury's verdict and order a new trial. Accordingly, the Company will proceed with an appeal and defend against this claim vigorously.

On May 14, 1998, a complaint was filed in the Federal District Court for the Western District of Wisconsin by fifteen individual plaintiffs on behalf of Kohl's Food Stores, Inc., a subsidiary of the Company. Shirley A. Lang et al.V. Kohl's Food Stores, Inc. and The Great Atlantic & Pacific Tea Company, Inc. Plaintiffs allege that they were discriminated against in the denial of opportunities for placement, training, promotions and compensation equal to those afforded male Kohl's employees who were placed in Kohl's produce departments. The produce clerk and produce manager positions allegedly pay more than the bakery and deli clerk and manager positions, but allegedly no greater skill is required to perform the produce positions. In addition to the alleged discriminatory acts in violation of the Civil Rights Act of 1964, ("Title VII"), the plaintiffs allege violation of the Federal Equal Pay Act. The plaintiffs seek lost wages, punitive damages and other benefits, costs and attorney's fees and other relief. The federal judge has permitted "opt in" notices to be sent to the alleged plaintiffs in the Equal Pay Act portion of the suit, and on March 17, 1999, certified a class with respect to the alleged wage differentials in the Title VII portion of the suit. The Company is vigorously defending the allegations made against it in the suit, and based upon current available information the Company believes that the ultimate liability, if any, will not have a material effect upon the Company's consolidated financial statements or liquidity.

The Company is involved in various other claims, administrative agency proceedings and lawsuits arising out of the normal conduct of its business. Although the ultimate outcome of these legal proceedings cannot be predicted with certainty, the Management of the Company believes that the resulting liability, if any, will not have a material effect upon the Company's consolidated financial statements or liquidity.

OPERATING SEGMENTS

During the fourth quarter of fiscal 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). This statement establishes standards for reporting information about operating segments in annual financial statements and selected information in interim financial statements. It also establishes standards for related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer.

The Company currently operates in three reportable segments: United States Retail, Canada Retail and wholesale. The retail segments are comprised of retail supermarkets in the United States and Canada, while the wholesale segment is comprised of the Company's Canadian store franchising operation which includes serving as the exclusive wholesaler to such franchised stores.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies. The Company measures segment performance based upon operating profit.

Information on segments are as follows:

(Dollars in thousands)

Fiscal 1998

	United States Retail	Canada Retail	Wholesale	Total Company
Sales	$8,276,493	$1,515,602	$387,263	$10,179,358
Depreciation and amortization	209,656	24,007	-	233,663
Operating (loss) income	(186,558)	11,317	10,850	(164,391)
Interest expense	(58,389)	(13,108)	-	(71,497)
Interest income	876	2,686	3,042	6,604
Income (loss) before taxes	(244,071)	895	13,892	(229,284)
Total assets	2,582,040	504,926	54,775	3,141,741
Capital expenditures	376,688	61,657	-	438,345

Fiscal 1997

	United States Retail	Canada Retail	Wholesale	Total Company
Sales	$8,344,253	$1,577,742	$340,248	$10,262,243
Depreciation and amortization	209,521	24,715	-	234,236
Operating income	109,501	40,088	5,670	155,259
Interest expense	(65,968)	(14,184)	-	(80,152)
Interest income	2,110	2,639	3,044	7,793
Income before taxes and extraordinary item	45,643	28,543	8,714	82,900
Total assets	2,521,008	417,064	57,181	2,995,253
Capital expenditures	243,442	24,181	-	267,623

Fiscal 1996

	United States Retail	Canada Retail	Wholesale	Total Company
Sales	$8,281,925	$1,601,958	$205,131	$10,089,014
Depreciation and amortization	205,528	25,220	-	230,748
Operating (loss) income	122,159	49,457	(2,313)	169,303
Interest expense	(54,257)	(18,951)	-	(73,208)
Interest income	576	1,786	2,134	4,496
Income before taxes	68,478	32,292	(179)	100,591
Total assets	2,549,500	393,495	59,677	3,002,672
Capital expenditures	250,796	46,082	-	296,878

Geographic Areas

Fiscal 1998

	United States	Canada	Total Company
Sales	$ 8,276,493	$ 1,902,865	$10,179,358
Long-lived assets	1,528,249	204,687	1,732,936

Fiscal 1997

	United States	Canada	Total Company
Sales	$ 8,344,253	$ 1,917,990	$10,262,243
Long-lived assets	1,469,641	175,174	1,644,815

Fiscal 1996

	United States	Canada	Total Company
Sales	$ 8,281,925	$ 1,807,089	$10,089,014
Long-lived assets	1,456,270	183,143	1,639,413

SUBSEQUENT EVENT

On April 26, 1999, the Company announced that it had reached definitive agreements to sell 14 stores in the Atlanta market, two of which were previously included in the Company's store exit program (see "Store and Facilities Exit Costs" footnote). In conjunction with the sale, the Company decided to exit the entire Atlanta market and close the remaining 22 stores, as well as the distribution center and administrative office. Accordingly, the Company expects to record a fiscal 1999 first quarter pre-tax charge, net of proceeds from asset sales, in the range of $15 million to $20 million. This charge will include fixed and intangible asset write-offs, severance and lease commitments, and will be recorded as "store operating, general and administrative expense".

SUMMARY OF QUARTERLY RESULTS

(unaudited)

The table below summarizes the Company's results of operations by quarter for fiscal 1998 and 1997. The first quarter of each fiscal year contains sixteen weeks, while the other quarters each contain twelve weeks, except the fourth quarter of fiscal 1997 which contains thirteen weeks resulting from a 53 week year.

(Dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1998					
Sales	$3,078,386	$2,330,249	$2,344,400	$2,426,323	$10,179,358
Gross margin	886,313	673,278	679,714	679,943	2,919,248
Depreciation and amortization	72,194	54,167	55,081	52,221	233,663
Income (loss) from operations	44,231	28,653	(1,749)	(235,526)	(164,391)
Interest expense	(21,032)	(15,781)	(16,212)	(18,472)	(71,497)
Net income	19,169	10,951	(8,734)	(88,550)	(67,164)
Per share data:					
Net income (loss) - basic and diluted	.50	.29	(.23)	(2.31)	(1.75)
Cash dividends	.10	.10	.10	.10	.40
Market price:					
High	34.25	33.63	27.63	34.00	
Low	29.63	23.56	22.13	25.43	
Number of stores at end of period	919	913	907	839	
Number of franchised stores served at end of period	53	53	55	55	
1997					
Sales	$3,104,591	$2,335,695	$2,318,821	$2,503,136	$10,262,243
Gross margin	884,216	673,467	663,727	713,468	2,934,878
Depreciation and amortization	71,439	53,963	53,763	55,071	234,236
Income from operations	53,006	38,640	30,753	32,860	155,259
Interest expense	24,418	18,928	18,670	18,136	80,152
Income before extraordinary item	22,787	16,207	11,234	13,358	63,586
Extraordinary loss on early extinguishment of debt	-	(544)	-	-	(544)
Net income	22,787	15,663	11,234	13,358	63,042
Per share data:					
Income (loss) per share before extraordinary item - basic and diluted	.60	.42	.29	.35	1.66
Extraordinary loss on early extinguishment of debt - basic and diluted	-	(.01)	-	-	(.01)
Net income - basic and diluted	.60	.41	.29	.35	1.65
Cash dividends	.10	.10	.10	.10	.40
Market price:					
High	31.375	27.875	36.000	32.750	
Low	23.125	24.125	25.313	26.750	
Number of stores at end of period	964	943	941	936	
Number of franchised stores served at end of period	48	48	52	52	

MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS

The Management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using Management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide reasonable assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with Management, internal auditors and the independent auditors, Deloitte & Touche LLP, to review each of their respective activities.

Christian W.E. Haub
President and
Chief Executive Officer

Fred Corrado
Vice Chairman of the Board and
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have audited the accompanying consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 27, 1999 and February 28, 1998 and the related consolidated statements of operations, shareholders' equity and comprehensive (loss) income, and cash flows for each of the three fiscal years in the period ended February 27, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies at February 27, 1999 and February 28, 1998 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 27, 1999 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Parsippany, New Jersey
April 29, 1999

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except per share data)	Fiscal 1998 (52 weeks)	Fiscal 1997 (53 weeks)	Fiscal 1996 (52 weeks)	Fiscal 1995 (52 weeks)	Fiscal 1994 (52 weeks)
Operating Results					
Sales	$10,179,358	$10,262,243	$10,089,014	$10,101,356	$10,331,950
Income (loss) from operations	(164,391)	155,259	169,303	151,734	(57,530)
Depreciation and amortization	233,663	234,236	230,748	225,449	235,444
Interest expense	71,497	80,152	73,208	73,143	72,972
Income (loss) before cumulative effect of accounting change and extraordinary item	(67,164)	63,586	73,032	57,224	(166,586)
Extraordinary loss on early extinguishment of debt	-	(544)	-	-	-
Cumulative effect on prior years of change in accounting principle: Postemployment benefits	-	-	-	-	(4,950)
Net income (loss)	(67,164)	63,042	73,032	57,224	(171,536)
Per Share Data					
Income (loss) before cumulative effect of accounting change and extraordinary item - basic and diluted	(1.75)	1.66	1.91	1.50	(4.36)
Extraordinary loss on early extinguishment of debt - basic and diluted	-	(0.01)	-	-	-
Cumulative effect on prior years of change in accounting principle: Postemployment benefits - basic and diluted	-	-	-	-	(.13)
Net income (loss) - basic and diluted	(1.75)	1.65	1.91	1.50	(4.49)
Cash dividends	.40	.40	.20	.20	.65
Book value per share	21.87	24.22	23.27	21.53	20.27
Financial Position					
Current assets	1,224,037	1,217,227	1,231,379	1,174,935	1,193,731
Current liabilities	1,134,063	955,130	1,016,005	983,968	1,096,454
Working capital	89,974	262,097	215,374	190,967	97,277
Current ratio	1.08	1.27	1.21	1.19	1.09
Expenditures for property	438,345	267,623	296,878	236,139	214,886
Total assets	3,141,741	2,995,253	3,002,672	2,860,847	2,894,788
Current portion of long-term debt	4,956	16,824	18,290	13,040	112,821
Current portion of capital lease obligations	11,483	12,293	12,708	13,125	14,492
Long-term debt	728,390	695,292	701,609	650,169	612,473
Long-term portion of capital lease obligations	115,863	120,980	137,886	129,887	146,400
Total debt	860,692	845,389	870,493	806,221	886,186
Debt to total capitalization	.51	.48	.49	.49	.53
Equity					
Shareholders' equity	837,257	926,632	890,072	822,785	774,914
Weighted average shares outstanding	38,273,859	38,249,832	38,221,329	38,220,333	38,220,333
Number of registered shareholders	7,419	8,029	8,808	10,010	10,867
Other					
Number of employees	83,400	79,980	84,000	89,000	92,000
New store openings	46	40	30	30	22
Number of stores at year end	839	936	973	1,014	1,108
Total store area (square feet)	28,736,319	30,574,286	30,587,324	31,101,589	33,310,121
Number of franchised stores served at year end	55	52	49	7	-
Total franchised store area (square feet)	1,537,388	1,389,435	1,345,786	177,936	-

Senior Executive Officers

Christian W.E. Haub*
President and Chief Executive Officer

Fred Corrado*
Vice Chairman, Chief Financial Officer

George Graham*
Executive Vice President, Chief Merchandising Officer

Michael J. Larkin*
Senior Executive Vice President, Chief Operating Officer

Laurane Magliari*
Senior Vice President, People Resources & Services

Aaron Malinsky*
Vice Chairman, Development and Strategic Planning

Peter J. O'Gorman*
Executive Vice President, International Store and Product Development

Cheryl Palmer*
Senior Vice President, Strategic Marketing

Merchandising/Staff Officers

Susan Adam
Vice President, Leadership & Organizational Development

Marene Allison
Vice President, Loss Prevention & Safety

Stephen T. Brown*
Vice President, Labor Relations

Sam A. Burman
Vice President, Planning & Design

Frederick S. Burstein
Vice President, A&P Properties

Andrew Carrano
Vice President, Marketing & Corporate Affairs

Timothy J. Courtney*
Vice President, Taxation

Frank D'Ariano
Vice President, Design & Construction

David S. Edwards
Vice President, People Relations

R. Terrence Galvin*
Vice President, Finance and Treasurer

Donna George
Vice President, Corporate Brands

Vincent Giambalvo, Ph. D
Vice President, People Development

Kenneth W. Green*
Vice President, Produce Merchandising and Procurement

Dennis Hickey
Vice President, GSO

Marshall K. Hill, Ph. D
Vice President, Quality Assurance

Joseph J. Hoffman*
Vice President, Meat Merchandising and Procurement

Robert A. Keenan*
Vice President, Chief Internal Auditor

John Kirk*
Vice President, Grocery Merchandising and Procurement

Francis X. Leonard*
Vice President, Real Estate Administration

Mary Ellen Offer*
Vice President, Assistant Corporate Secretary and Senior Counsel

Brian Pall*
Senior Vice President, Development

Peter Rojek
Vice President, Environmental Health

Richard J. Scola*
Vice President, Real Estate Law, Assistant General Counsel and Assistant Corporate Secretary

Kenneth A. Uhl*
Vice President and Controller

Robert G. Ulrich*
Senior Vice President, General Counsel and Secretary

Francis L. Urbaniak
Vice President, Retail Support Services

William Wolverton*
Vice President, Warehousing and Transportation

Lawrence Zimmerman
Vice President, Management Information Systems

Retail Operations

Northeast Operations
William A. Louttit
Chairman and Chief Executive Officer

Andrew Fuchs
President, Metro Group

David Hoalt
President, Super Fresh Group

Robert Panasuk
President, New England Group

Louis Ruggiero
President, Food Emporium

David A. Smithies
President, Waldbaum, Inc.

Southern Operations
Donald Dobson*
Group Vice President

Midwestern Operations
Craig C. Sturken
Chairman and Chief Executive Officer

James Holt
President, Kohl's Food Stores, Inc.

A&P Canada
John P. Dunne
Chairman & Co-Chief Executive Officer

Brian Piwek
Vice Chairman & Co-Chief Executive Officer

William McEwan
President & Chief Merchandising Officer

Compass Foods
Eight O'Clock Coffee
Donald J. Sommerville
Vice President & General Manager

Super Market Service Corp.
Eugene Lear*
President

* *denotes elected officers*

BOARD OF DIRECTORS

James Wood (c)
Chairman of the Board

John D. Barline, Esq. (e)
Williams, Kastner & Gibbs LLP, Tacoma, Washington

Rosemarie Baumeister (b)
Executive Vice President, Tengelmann Warenhandelsgesellschaft, Germany

Fred Corrado (c)(d)(e)
Vice Chairman of the Board and Chief Financial Officer

Christopher F. Edley (a)(b)(c)(e)
President Emeritus and former President and Chief Executive Officer of the United Negro College Fund, Inc.

Christian W.E. Haub (c)(d)(e)
President and Chief Executive Officer

Helga Haub (c)(d)

Barbara Barnes Hauptfuhrer (a)(c)(d)(e)
Director of various corporations

William A. Liffers (a)(b)(c)
Former Vice Chairman of American Cyanamid Company

Fritz Teelen (d)
Chief Operating Officer of Tengelmann Warenhandelsgesellschaft, Germany

R.L. "Sam" Wetzel (a)(b)(d)(e)
President and Chief Executive Officer of Wetzel International, Inc.

(a) Member of Audit Review Committee, William A. Liffers, Chairman

(b) Member of Compensation Policy Committee, Christopher F. Edley, Chairman

(c) Member of Executive Committee, James Wood, Chairman

(d) Member of Finance Committee, R.L. "Sam" Wetzel, Chairman

(e) Member of Retirement Benefits Committee, Barbara Barnes Hauptfuhrer, Chairman

SHAREHOLDER INFORMATION

Executive Offices
Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone 201-573-9700

Transfer Agent and Registrar
American Stock Transfer and Trust Company
40 Wall Street
New York, NY 10005
Telephone 212-936-5100

Independent Auditors
Deloitte & Touche LLP
Two Hilton Court
Parsippany, NJ 07054

Shareholder Inquiries and Publications

Shareholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Treasury Department at the Executive Offices in Montvale, New Jersey.

Internet users can access information on A&P at: www.aptea.com

Correspondence concerning shareholder address changes should be directed to:

American Stock Transfer and Trust Company
40 Wall Street
New York, NY 10005
Telephone 212-936-5100

Form 10-K

Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. (EDT) on Tuesday, July 13, 1999 at the Sheraton Crossroads Hotel, One International Boulevard, Mahwah, New Jersey. Shareholders are cordially invited to attend.

Common Stock

Common stock of the Company is listed and traded on the New York Stock Exchange under the ticker symbol "GAP" and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges. The stock is reported in newspapers and periodical tables as "GtAtPc."

Financial Calendar

Annual Meeting of Shareholders
July 13, 1999

	Estimated Date of Announcement of the Quarter's Results	Estimated Date of Dividend Payment
1st	July 7, 1999	April 30, 1999
2nd	September 28, 1999	August 9, 1999
3rd	December 21, 1999	November 1, 1999
4th	March 16, 2000	February 1, 2000

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